PERFORMANCE REPORT - 2017

Department of Fiscal Policy

Ministry of Finance & Mass Media

Colombo 01

Contents

List of Table

List of Chart

1.0 Frame work

1.1 Introduction

The main responsibilities of the Department of Fiscal Policy is formulation and implementation of fiscal policy within the broad developmental framework of the government in consultation with relevant institutions, line ministries, other agencies/ institutions and private sector to achieve desired economic and social outcomes to the country.

The Department is essentially responsible for the taxation policy of country as well as analyzing the developments in revenue, expenditure and financing activities, and the domestic and global macroeconomic development in order to facilitate appropriate adjustment in the country's fiscal policy to achieve desired outcomes.

The Department of Fiscal Policy identified the importance of strengthening its activities further to provide necessary impetus towards undertaking more analysis and research activities in the medium to long run thereby facilitating the General Treasury's transformation to operate in a middle income economy environment.

1.2 Vision

To Ensure the Establishment of a Sustainable Fiscal Policy Framework

1.3 Mission

Formulation and Implementation of Fiscal Policies within the Broad Developmental Framework of the Government

1.4 Scope and Functions

Formulation and implementation of Fiscal Policy and Medium Term Fiscal Strategy by coordinating public, private and international agencies.

Formulation of Tax Policy and related statues other than the Customs Duty and the Special Commodity Levy.

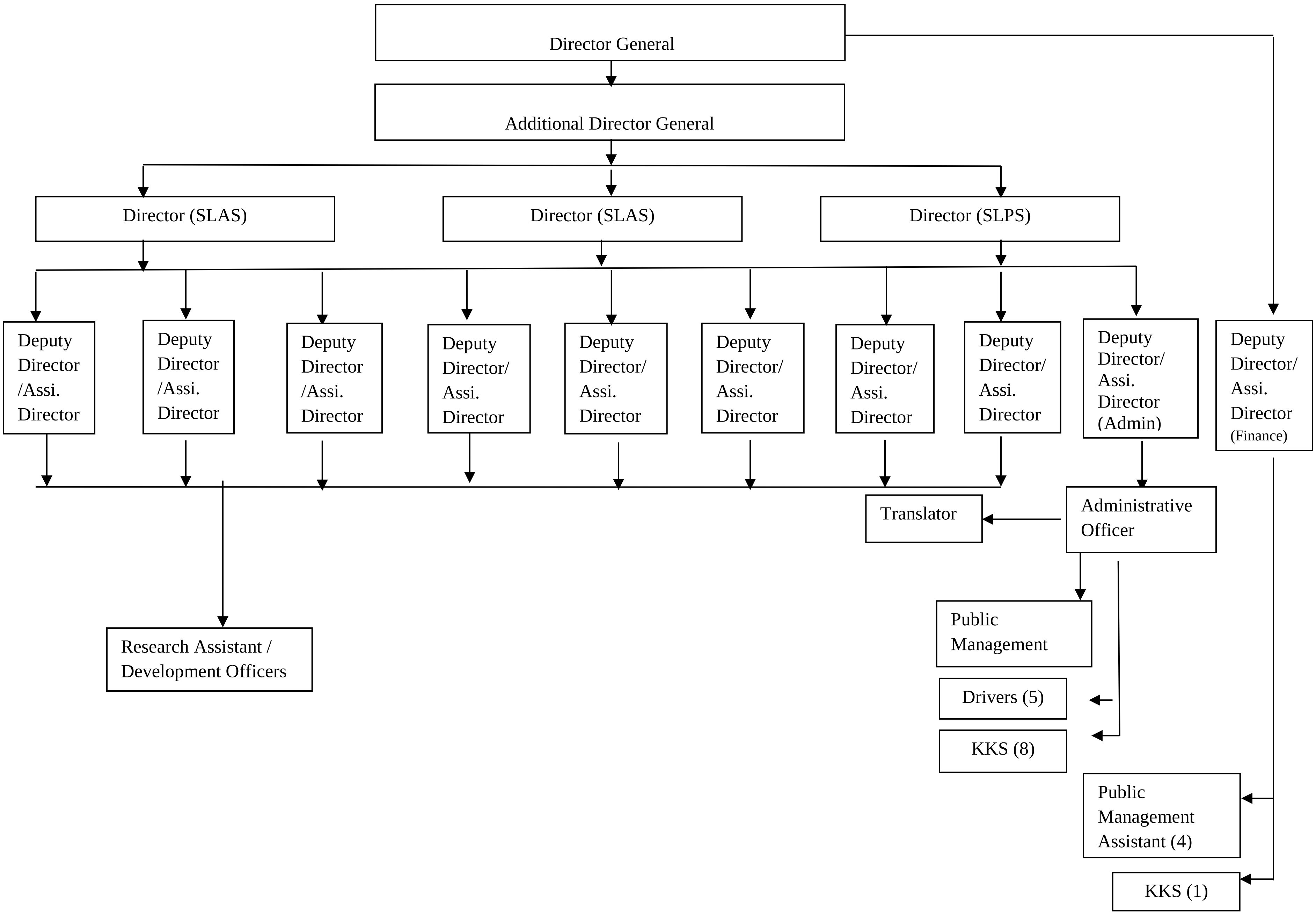
Management and review of Fiscal Out-turn and Fiscal Performance including Government revenue and receipts while maintaining a proper coordination with all departments engaged in revenue collection.

Handling the work related to the amendments to the legislations as per the policy decisions taken by the government from time to time.

Implementation of requirements under Fiscal Management (Responsibilities) Act, No.3 of 2003 including Reporting.

Undertaking analysis/research on various fiscal and macroeconomic matters

1.5 Organizational Structure - 2017



2.0 Fiscal Policy Development in 2017

2.1 Overview

The fiscal consolidation process in 2017 was geared towards increasing revenue mobilization while rationalizing government expenditure in order to contain the budget deficit and debt accumulation. Consequently, Government tax revenue as a percentage of GDP increased by 0.3 percentage point to 12.6 percent of GDP in 2017 from 12.3 percent of GDP in 2016 helped by the increase of VAT rate from 11 to 15 percent and other tax revisions. Tax reforms introduced with a view of facilitating revenue targets of the fiscal consolidation program have been assisted to broaden the tax base, strengthen the tax administration and rationalize tax exemptions.

The VAT revenue increased by 56.5 percent in 2017 compared to 2016. The total revenue share to GDP declined by 0.4 percentage point to 13.8 percent in 2017 from 14.2 percent in 2016 reflecting the drop in non-tax revenue collection by 0.7 percentage point to 1.2 percent of GDP in 2017. The moderation in non-tax revenue and the increase in expenditure due to larger than expected interest payments and unexpected expenditure on disaster relief led to a marginally higher budget deficit of 5.5 percent of GDP in 2017 compared to 5.4 percent in 2016.

Table 2.1 Summary of Government Revenue

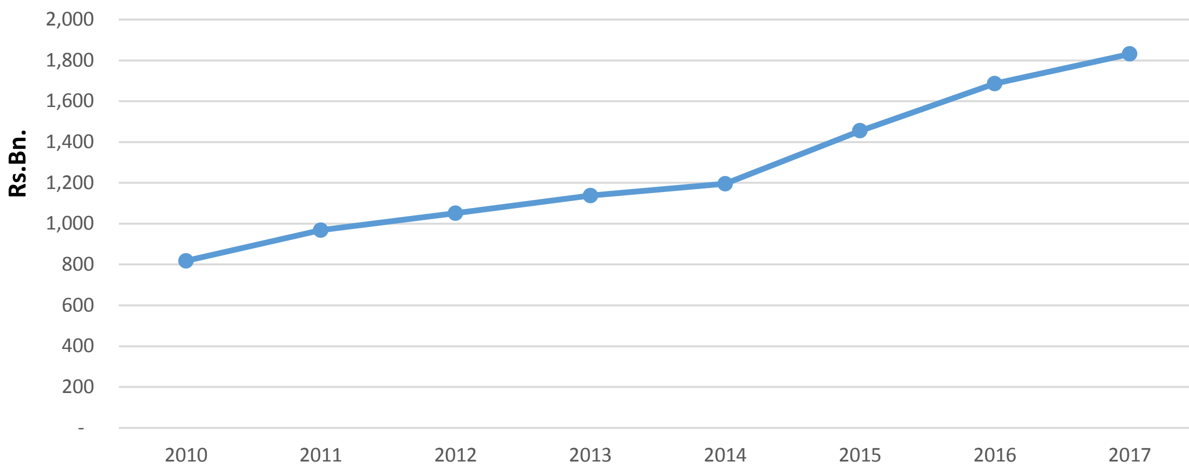
Rs. Mn.

Item	2014	2015	2016	2017 (Provisional)
Total Revenue and Grants	**1,204,621**	**1,460,892**	**1,693,557**	**1,839,562**
Total Revenue	**1,195,206**	**1,454,878**	**1,686,061**	**1,831,531**
Tax Revenue	1,050,362	1,355,779	1,463,689	1,670,178
Income Tax	198,115	262,583	258,857	274,562
Taxes on Goods and Services	615,832	803,798	841,967	1,025,799
Taxes on External Trade	236,415	289,398	362,865	369,817
Non Tax Revenue	144,844	99,099	222,372	161,353
Grants	**9,415**	**6,014**	**7,496**	**8,031**
As a % of GDP				
Revenue and Grants	**11.6**	**13.3**	**14.3**	**13.8**
Total Revenue	**11.5**	**13.3**	**14.2**	**13.8**
Tax Revenue	10.1	12.4	12.4	12.6
Non Tax Revenue	1.4	0.9	1.9	1.2
Grants	**0.1**	**0.1**	**0.1**	**0.1**

Source: Department of Fiscal Policy

In nominal terms, the total revenue increased by 8.6 percent to Rs. 1,832 billion in 2017 from Rs. 1,686 billion in 2016. The total tax revenue increased by 14.1 percent to Rs. 1,670.2 billion whereas total non-tax revenue declined by 27.4 percent to Rs. 161 billion in 2017.

Chart 2.1 Government Revenue



Revenue collected from domestic consumption-based taxes such as VAT and NBT on domestic activities increased by 26.4 percent to 530.8 billion in 2017. However, revenue on several consumption-based taxes such as liquor and cigarettes dropped by 5.5 percent and 3.1 percent in 2017, respectively. Revenue from import-based taxes such as VAT on imports, Ports and Airports Development Levy (PAL) and Cess increased by 11.2 percent to Rs. 821 billion. However, revenue generated from import duties and Cess levy declined in 2017.

The revenue generated from both domestic and import VAT significantly increased by 56.5 percent mainly due to the increase in VAT rate to 15 percent from 11 percent, the broadening of the tax base by removing VAT exemptions and increased VAT compliance through the RAMIS at IRD. However, excise revenue collection on liquor and cigarettes declined. The revenue from excise duty on motor vehicles marginally increased by 1.7 percent to Rs. 189.7 billion in 2017 mainly due to the upward revision of excise duty rates. Revenue generated from PAL and Special Commodity Levy (SCL), NBT also showed improved performance in 2017. However, revenue collection from income taxes declined in 2017 due to the reduction of revenue from corporate and non-corporate income taxes and withholding taxes. Revenue generated from Economic Service Charge and Pay-

As-You-Earn (PAYE) increased by 118.6 percent and 16.9 percent, respectively in 2017 due to the increased in salaries of public and private sectors and the broadening the tax base of ESC.

The non-tax revenue declined by 27.4 percent to Rs. 161.3 billion mainly due to the decline in profits and dividends transfers by SOBEs stemming from strained financial performance amidst modest economic growth in 2017.

The government expenditure was recorded at 19.4 percent of GDP in 2017, compared to 19.6 percent of GDP in 2016. Measures to rationalize government expenditure helped contain the non-interest recurrent expenditure while reorientation of public investments provided more funds for capital expenditure in priority areas in 2017.

In spite of various downside risks to government fiscal operations, the fiscal deficit was curtailed at 5.5 percent of GDP in 2017, mainly assisted by favorable tax revenue and expenditure performance. However, it was marginally high compared to 5.4 percent of GDP in 2016. Meanwhile, government's current account deficit increased marginally to 0.7 percent of GDP in 2017, from 0.6 percent of GDP in 2016, due mainly to a rise in interest payments to 5.5 percent of GDP in 2017 compared to 5.1 percent of GDP in 2016. Budget deficit warranted financing which was mainly sourced from borrowings, while proceeds from the long-term lease of Hambantota port also financed a part of budget deficit about 0.3 percent of GDP. Deficit financing from foreign sources, including the treasury bills and treasury bonds issued to foreigners accounted for 60 percent of total financing in 2017.

The outstanding central government debt fell to 77.4 percent of GDP as at end 2017, compared to 77.6 percent of GDP at end 2016, reflecting the relatively low nominal growth of outstanding debt compared to the growth of nominal GDP. Fiscal consolidation envisaged in the government fiscal strategy would ensure a steady reduction of government debt over the medium-term.

Further to policy measures undertaken in 2017, fiscal consolidation requires further reforms as earmarked in the Vision 2025 to address weaknesses in the government revenue mobilization. The revenue mobilization through improved tax compliance and administration, broadening the tax base and simplification tax structures have been identified as key policy areas to expand the fiscal space in the medium-term.

2.2 Fiscal Policy Measures

In 2017, the government has taken several policy measures to augment revenue mobilization in line with its fiscal consolidation process. Accordingly, several tax reforms continued in 2017 bridging the gap between direct and indirect taxes in the medium term. The government introduced the New Inland Revenue Act, No. 24 of 2017 (IRA) which was enacted in October 2017 and became effective from 01st April 2018.

The new IRA is expected to increase revenue from direct taxes through broadening income tax base and strengthening the tax administration. In addition, Economic Service Charge (ESC) was imposed at the point of importation for vehicles and ESC threshold was reduced to Rs. 12.5 million per quarter from Rs. 50 million per quarter with effect from 01st April 2017.

Several exemptions on construction contractors, services of travel agent and sale of residential apartments etc., granted under the Nation Building Tax (NBT) were removed. Embarkation Levy was increased to US dollars 50 for both ship and air passengers. The tax base on liquor was revised on the basis of alcohol volume from the basis of proof litre and raw material such as molasses and rice was made liable for excise duty in order to prevent revenue leakages. Excise duty on motor vehicles was revised upwards and several measures were introduced to mitigate revenue loopholes. The automation process (RAMIS) at the Inland Revenue Department continued in 2017 also to strengthen the tax administration.

The measures taken by the government are expected to support the achievements of targets set in the “Vision 2025” and the Medium Term Fiscal Strategy of the Government. As such government revenue is expected to reach above 17 percent of GDP by 2022. Such improvement in government revenue would ensure achievement of other major fiscal targets such as reducing the budget deficit to 3.5 percent of GDP by 2020 through 2022, central government debt to fall to about 69 percent of GDP by 2022 and maintaining public investment at above 5.5 percent of GDP in the medium-term. The details on major fiscal measures are tabulated as follows;

Table 2.2 Major Fiscal Measures in 2017

Effective Date	Measures
Excise (Special Provisions) Duty	
10.06.2017	Excise duty concessions were revised to purchase a locally manufactured or imported motor vehicle on a concessionary permit for the public officers.
19.06.2017	Excise duty concession was granted to import motor vehicles on a concessionary permit for members of the First Northern Provincial Council.
12.07.2017	Excise duty concession was revised to purchase a locally manufactured or imported motor vehicle on a concessionary permit for a diplomatic officer who served in the missions aboard.
18.08.2017	Excise duty on mini trucks and single cabs was reduced and the applicable ad-valorem rate of 90 percent on a motor cycle with engine capacity less than 150 cc was removed.
10.11.2017	Excise duty rates on excisable articles were revised in line with the Budget 2018.
15.11.2017	Excise duty rate for vehicles which LCs opened before the Budget 2018 was applied the duty rate prevailed on 09 November 2017.
16.11.2017	The Excise duty concession given for environmental friendly brand-new electric motor vehicles was also extended for less than one year old electric motor vehicles.
16.11.2017	Vehicles for which LCs opened before the Budget 2018 were allowed to release them without payment of reversed tax rate.
23.11.2017	The concessionary excise duty rate given for locally assembled motor vehicle was reduced from 40% to 30%.
Excise (Ordinance) Duty	
01.01.2017	The allowance for the loss of ethanol by evaporation and leakage in storage and transportation was reduced.
01.01.2017	Annual liquor license fees were revised.
01.01.2017	Excise duty on bottled toddy was increased to Rs. 50 per litre from Rs. 30 per litre.
01.01.2017	A license fee of Rs. 100,000 for the sales of locally produced and Rs. 50,000 for the sale of bottled toddy were introduced.
28.07.2017	The process of issuing licenses to import of foreign liquor was simplified.
01.08.2017	An excise duty of Rs.25.00 per bulk litre of non-portable spirits imported in to in Sri Lanka with effect from 01.08.2017 was imposed.
10.11.2017	Rs.15.00 per bulk Kg of non-portable spirits imported into Sri Lanka was imposed.
10.11.2017	Liquor tax base on a proof liter was revised on the basis of alcohol volume.
09.11.2017	The raw material of molasses, maize, rice and fruits were made liable for excise duty.
10.11.2017	The excise duty on raw material was imposed.
19.12.2017	Excise duty of Rs.15 per bulk kg on non-portable spirits was imposed.

Table 2.2 Major Fiscal Measures in 2017

Effective Date	Measures
Stamp Duty	
21.02.2017	Motor vehicle categories on which was stamp duty is payable on policy insurance, finance lease agreements and hire purchase agreements were specified.
Ports and Airports Development Levy (PAL)	
14.12.2017	PAL on the import of non-powered equipment of "open skies for aero sports" including 253 items was removed. PAL on the import of non-motorized water sports equipment was removed.
Cess Levy	
22.03.2017	Cess on unbranded new tyre casing without any marking, bars and rods not further worked that hot rolled, hot drawn or extruded and linear low density polyethylene was removed.
02.08.2017	Cess levy on wheat flour was reduced to Rs.15 per Kg.
27.11.2017	The applicable cess rates on identified 253 items were rescinded.
Economic Service Charge (ESC)	
01.04.2017	ESC was imposed at the point of importation for vehicles and ESC threshold was reduced to Rs.12.5 Mn. per quarter from Rs.50 Mn. per quarter.
Nation Building Tax (NBT)	
01.08.2017	The following exemptions were removed and made liable for NBT: Goods required for the purpose of providing of services of international transportation, being goods consigned to Sri Lankan Airlines Ltd, Mihin Lanka (Pvt) Ltd or Air Lanka Catering Services Ltd. Supply of any goods or services provided by any Cooperative Society or Lak Sathosa. Construction services by a contractor other than by sub- contractor. Services of a travel agent in respect of inbound tours other than such services provided received for payment received in a foreign currency through a bank. - Sale of residential apartments. The following items were exempted from paying NBT: International telecommunication services provided to local operators by External Gateway Operators. Printed books, magazines, journals or periodicals (Other than newspapers). Solar panel modules and accessories.
Customs Import Duty	
07.01.2017	New HS National Sub Divisions were introduced for rice varieties.
01.02.2017	Customs duty waivers of Rs. 3 per liter for diesel (from applicable Customs duty of Rs. 15 per liter) and Rs. 10 per liter for petrol (from applicable customs duty of Rs. 35 per liter) were granted.

Table 2.2 Major Fiscal Measures in 2017

Effective Date	Measures
17.02.2017	Customs import duty on identified tariff lines was revised to facilitate local industries and trade flows.
15.03.2017	A method for determination of Customs value on disposal of machinery and equipment imported under concessionary basis by enterprises in the business of manufacturing and exporting apparel was prescribed.
08.07.2017	Customs duty waiver for milk powder (from applicable Customs duty 20% or Rs. 225 per Kg) was increased to Rs.223 per kg.
02.08.2017	Customs duty waiver for wheat grain (from applicable Customs duty Rs.12 per Kg) was increased to Rs. 6 per kg.
12.08.2017	Descriptions of selected HS codes were amended and new HS National sub divisions were created.
14.08.2017	A method for determination of Customs value for disposal of motor vehicles imported under an approved scheme of exemption of duty on conditional basis was prescribed.
07.01.2017	New HS Codes (National Sub Divisions) were created for rice varieties of Kakulu, Nadu and Samba to facilitate importation of Rice to meet estimated supply in the local market.
17.02.2017	Importation of ingredients for animal feed production, importation of alloy steel bars for manufacturing of leaf spring and importation of steel for manufacturing of prefabricated buildings were brought under the List of Exemptions to facilitate local industries and trade flows. Customs import duty was revised on the importation of polymers in primary forms, soya beans, tyres, steel, ball bearings, sparking plugs and batteries. HS Code National Sub Divisions were created for bamboo floor panels, end cap for metal cans and concrete pump trucks.
12.08.2017	Description of selected HS Codes/ Creation of new HS Code National Sub Divisions in order to give effect to the industry requests and also to the policy decisions/ directives was amended.
10.11.2017	Following amendments were implemented under the Budget Proposals – 2018 Revision of Customs Import Duty including exemption and concessions. Revision of HS National Divisions. Revision and adoption of HS 2017 System as amended by the World Customs Organization with appropriate HS National Sub Divisions.
Special Commodity Levy (SCL)	
07.01.2017	SCL duty of Rs.15/- per kg to rice varieties of kekulu, nadu and samba was introduced.
19.01.2017	Duty on vegetable oils of Rs 20/- was reduced with a view to managing domestic price level of coconuts and related products and the validity period of other items including Maldive fish, Sprats, Black gram, Chilies, Coriander, Turmeric, Black gram flour, Canned Fish and Vegetable oils was extended.
28.01.2017	Rs. 10/- per kg duty waiver was granted for rice varieties of kekulu, nadu and

Table 2.2 Major Fiscal Measures in 2017

Effective Date	Measures
	samba for a period of 30 days.
17.02.2017	The validity period of the SCL Duty on Potato, and B'Onions (Rs. 40/- Kg) were extended and duty on lentils was increased by Rs. 5/- kg .
24.02.2017	Duty on vegetable oils was reduced by Rs. 20/- .
27.02.2017	Granted Rs.10 /- per kg duty waiver for rice varieties of kekulu, nadu and samba were extended for a period of 30 days.
08.03.2017	The validity period for 6 months on prevailing duty rates was extended of mackerel fish, peas, chickpeas, cowpeas, Kurakkan and Brown/Raw Sugar with the view to facilitate the local sugar farmers and price stabilization.
28.03.2017	Duty waiver of Rs. 10 /- per kg for rice varieties of kekulu, nadu and samba were extended from 28 to 31 March 2017.
01.04.2017	Duty rate on rice of Rs. 5 per Kg was revised for the period of 60 days.
02.04.2017	The validity period of Dried fish, Yogurt, Butter, Garlic, Oranges, Grapes, Apples, , Mathe seed, Kurakkan flour Ground nut, Mustard seeds, Salt were extended for another 6 months .
08.05.2017	The validity period of Fish, Green gram, Mangosteen, dried Oranges, Pears, Cherries, Plums, Kiwifruit and Pomegranate were extended for 6 months with effect from 08 May, 2017, under the same duty rate aiming at maintaining fixed market price as a concession for consumers.
21.05.2017	Concessionary rate of SCL of Rs. 5/ per kg for importation of Brown Rice same as Kekulu, Nadu and Samba rice were introduced.
31.05.2017	The importation of selected varieties of rice under the concessionary rate of SCL duty of Rs. 5/ per kg was extended until August 31, 2017.
06.06.2017	The validity period of the existing SCL duty on the importation of Margarine was extended for another 6 months and SCL of Rs 10/- per kg on the importation of White Sugar and Brown Sugar was increased.
07.06.2017	Rs. 25 /- per kg duty waiver was extended for fish for a period of 30 days.
01.07.2017	SCL Duty for Broken Rice Rs.5/- per kg was introduced for the period of 3 months.
19.07.2017	The validity period of the existing SCL duty on 8 items including Maldive Fish, Sprats, Black gram, Chillies, Coriander, Turmeric, Black gram flour and Canned Fish were extended for another 6 months.
27.07.2017	SCL Duty to 25 cents per kg for Brown Rice, Raw/Kekulu Rice, Nadu and Samba Rice was reduced.
01.08.2017	SCL Duty on sail fish and marlin fish was reduced to Rs.25 per kg for the period of 03 months SCL Duty of Rs 10 per Kg for maize was re- introduced for the period of 06 months.
02.08.2017	SCL Duty on broken rice was reduced to 25 cents per kg.
16.08.2017	Duty rate on white sugar was increased to Rs. 31 per kg.

Table 2.2 Major Fiscal Measures in 2017

Effective Date	Measures
	Duty rate for brown sugar was increased Rs. 33 per kg for the period of 06 months.
17.08.2017	The validity period of the existing SCL duty on 3 items including Potato, B' Onions and lentils was extended for another 6 months.
24.08.2017	The validity period of the existing SCL duty on edible oil was extended for another 4 months.
08.09.2017	The validity period of the existing SCL duty on Mackerel fish, Peas, Chickpeas, Cowpeas and Kurakkan was extended for another 6 months.
02.10.2017	The validity period of the existing SCL duty on 12 items including Dried fish, Yogurt and Butter was extended for another 6 months.
01.11.2017	SCL Duty on Sail Fish and Marlin Fish was imposed to 10% or Rs 75 /- per kg.
08.11.2017	The validity period of Fish, Green gram, Mangosteen, dried Oranges, Pears, Cherries, Plums, Kiwifruit and Pomegranate was extended for 6 months.
09.11.2017	The duty rate of Sprats, Dried Fish, Potato and B'Onions was reduced.
21.11.2017	The validity period of Red onions, Dates, Dried grapes, Cumin, Fennel and Margarine was extended for another 6 months.
14.12.2017	Duty on the importation of Sail Fish, Marlin Fish was reduced to Rs. 25 per kg. Duty on the importation of Thora Fish was reduced to Rs. 25 per kg..
15.12.2017	The duty of vegetable oil was increased to the before budget rates.
Customs Valuation and Others	
15.03.2017	The method for determination of Customs Value for disposal of machinery and equipment was prescribed on conditional basis by approval of manufacturers and exporters apparel.
	The Customs value for disposal of motor vehicles imported under an approved scheme of exemption of duty on a conditional basis was determined.
Other Levies and Chargers	
01.01.2017	Embarkation Levy rate was increased to USD 50 for both ship and air passengers.
01.09.2017	Telecommunication levy on internet services was removed.
08.11.2017	The tele drama, film and commercials levy was amended.
Administrative Changes	
09.01.2017	The retail price of Kerosene was reduced by Rs. 5 to Rs. 44 per litre.
27.01.2017	The maximum retail prices of selected consumer goods were imposed.
08.02.2017	The maximum retail prices on rice were imposed.
17.02.2017	The maximum retail prices on locally produced and imported rice were imposed.
26.09.2017	The domestic gas price was increased by Rs. 110 to Rs.1, 431 for a 12.5 Kg cylinder.

Table 2.3 Estimated and Actual Revenue - 2017

Rs. Mn.

Item	Estimated	Actual	Deviation
Total Revenue	**2,010,300**	**1,831,531**	**-178,769**
Tax Revenue	**1,827,000**	**1,670,178**	**-156,822**
Department of Inland Revenue			
Tax on Income and Profit	334,550	274,562	-59,988
VAT - Domestic (Net)	232,000	275,346	43,346
Nation Building Tax (Domestic)	42,000	49,715	7,715
Sub Total	**608,550**	**599,623**	**-8,927**
Department of Customs			
Import Duty	165,000	136,501	-28,499
VAT - Imports (Net)	148,000	168,393	20,393
Nation Building Tax (Import)	24,000	19,320	-4,680
PAL	106,000	102,360	-3,640
Cess Levy	60,000	59,554	-446
Special Commodity Levy & Other	65,000	71,402	6,402
Excise Special Provisions	404,000	356,240	-47,760
Cigarettes	105,000	85,956	-19,044
Petroleum	55,000	73,983	18,983
Motor Vehicles & other	244,000	196,301	-47,699
Sub Total	**972,000**	**913,770**	**-58,230**
Department of Excise			
Liquor/Tobacco	175,035	113,260	-61,775
Sub Total	**175,035**	**113,260**	**-61,775**
Other			
Telecommunication Levy	43,000	33,399	-9,601
License Tax & Other	28,415	10,126	-18,289
Sub Total	**71,415**	**43,525**	**-27,890**
Non - Tax Revenue	**183,300**	**161,353**	**-21,947**

Source: Department of Fiscal Policy

2.3 Trend of Government Revenue.

Reflecting the fiscal consolidation measures adopted by the Government, tax revenue increased to 12.6 percent of GDP in 2017 from 12.3 percent of GDP in 2016 mainly contributed by indirect taxes such as Excise Duty and Value Added Tax (VAT) in 2017. Ratio of direct tax to indirect tax declined as 16:84 in 2017. The ratio of the same were observed as 20:80 in the previous years. However, the ratio has to be maintained as 40:60 in 2020 according to "Vision 2025". Non- Tax revenue was contributed by 9 per cent by mainly earnings from sales, charges, profits and dividends from government organizations.

In nominal terms, the total revenue increased by 8.6 percent to Rs. 1,831.5 billion in 2017 from Rs. 1,686.1 billion in 2016 as against the estimated revenue of Rs. 2,010.3 billion. The tax revenue increased by 14.1 percent to Rs. 1,670.2 billion in 2017 from Rs. 1463.7 billion in 2016. Non-tax revenue declined by 27.4 percent to Rs. 161.3 billion in 2017 from Rs. 222.4 billion in 2016.

Chart 2.2 Government Revenue 2010 - 2017

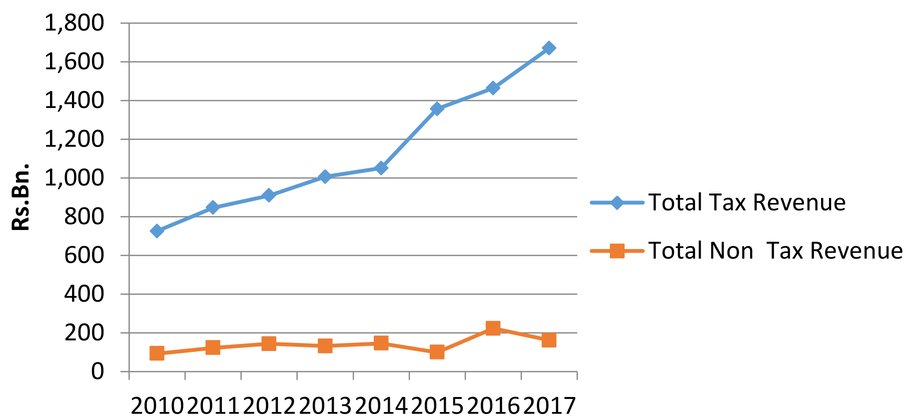


Chart 2.3 Government Revenue

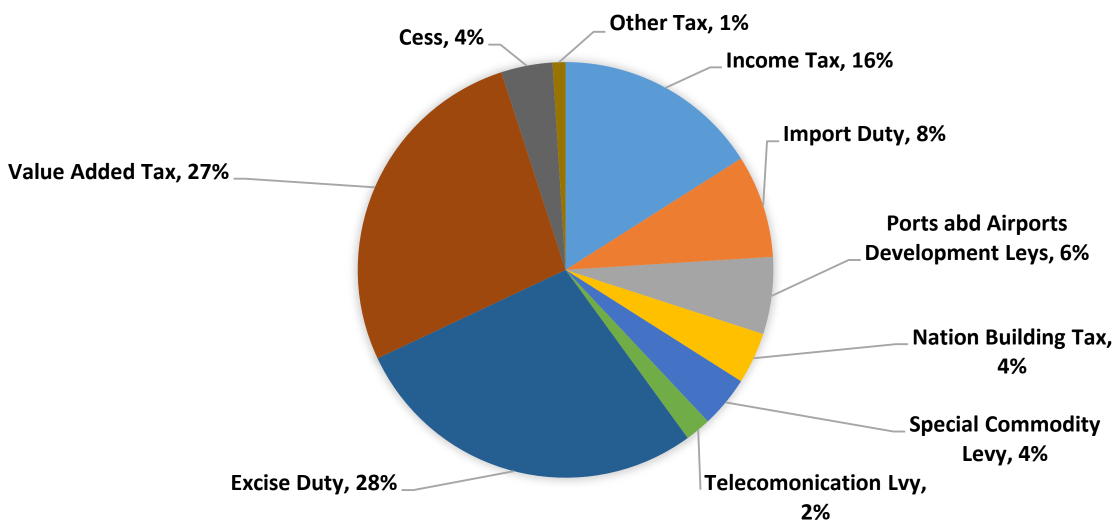


Table 2.4 Government Revenue

Rs. Mn.

Item	2012	2013	2014	2015	2016	2017 (Provisional)
Tax Revenue	**908,915**	**1,005,895**	**1,050,362**	**1,355,779**	**1,463,689**	**1,670,178**
Income Tax	172,594	205,666	198,115	262,583	258,857	274,562
VAT	229,604	250,523	275,350	219,700	283,470	443,739
Nation Building Tax	38,736	40,937	44,583	45,004	57,424	69,035
Excise Duty	223,960	250,700	256,690	497,623	454,952	469,454
Import Duties	80,155	83,123	81,108	132,189	156,487	136,501
Ports & Airports Development Levy	70,111	61,987	68,646	58,644	88,823	102,360
Special Commodity Levy	33,666	46,705	47,953	52,276	55,825	71,402
Other	60,089	66,255	77,917	87,760	107,851	103,125
Non Tax Revenue	**142,547**	**131,552**	**144,844**	**99,099**	**222,372**	**161,353**
Interest/ Rent	11,686	11,995	13,647	7,321	15,806	11,845
Profit and Dividends	46,761	35,169	46,814	29,798	108,160	53,998
Sales and Charge	26,019	40,720	35,499	44,632	72,606	66,575
Social Security Contribution	11,738	15,145	14,919	15,213	18,046	22,940
Central Bank Profit Transfers	43,000	26,350	11,500	-	5,000	-
Other	3,343	2,173	22,466	2,135	2,754	5,995
Total Revenue	**1,051,462**	**1,137,447**	**1,195,206**	**1,454,878**	**1,686,061**	**1,831,531**

	As a % of GDP					
Tax Revenue	**10.4**	**10.5**	**10.1**	**12.4**	**12.3**	**12.6**
Income Tax	2.0	2.1	1.9	2.4	2.2	2.1
VAT	2.6	2.6	2.7	2.0	2.4	3.3
Nation Building Tax	0.4	0.4	0.4	0.4	0.5	0.5
Excise Duty	2.6	2.6	2.5	4.5	3.8	3.5
Import Duties	0.9	0.9	0.8	1.2	1.3	1.0
Ports & Airports Development Levy	0.8	0.6	0.7	0.5	0.7	0.8
Special Commodity Levy	0.4	0.5	0.5	0.5	0.5	0.5
Other	0.7	0.7	0.8	0.8	0.9	0.8
Non Tax Revenue	**1.6**	**1.4**	**1.4**	**0.9**	**1.9**	**1.2**
Interest/ Rent	0.1	0.1	0.1	0.1	0.1	0.1
Profit and Dividends	0.5	0.4	0.5	0.3	0.9	0.4
Sales and Charge	0.3	0.4	0.3	0.4	0.6	0.5
Social Security Contribution	0.1	0.2	0.1	0.1	0.2	0.2
Central Bank Profit Transfers	0.5	0.3	0.1	-	…	-
Total Revenue	**12.0**	**11.9**	**11.5**	**13.3**	**14.2**	**13.8**

Source: Department of Fiscal Policy

… Negligible

- not available

Table 2.5 Government Tax Revenue - By Source

Rs. Mn.

Source	2016	2017 (Provisional)	2017/2016 Change (%)
Income Tax	**258,857**	**274,562**	**6.1**
Corporate & Non Corporate	154,324	143,588	(7.0)
PAYE	28,169	32,920	16.9
ESC	20,458	44,720	118.6
Tax on interest	55,906	53,334	(4.6)
Domestic Consumption Based Taxes	**419,897**	**530,838**	**26.4**
VAT - Domestic	168,134	275,346	63.8
NBT - Domestic	39,029	49,715	27.4
Tax on Liquor	120,238	113,684	(5.5)
Tax on Cigarettes/Tobacco	88,792	86,002	(3.1)
Other (Excise)	3,704	6,091	64.4
Import Based Taxes	**738,814**	**821,253**	**11.2**
Import Duties	156,487	136,501	(12.8)
VAT - Import	115,336	168,393	46.0

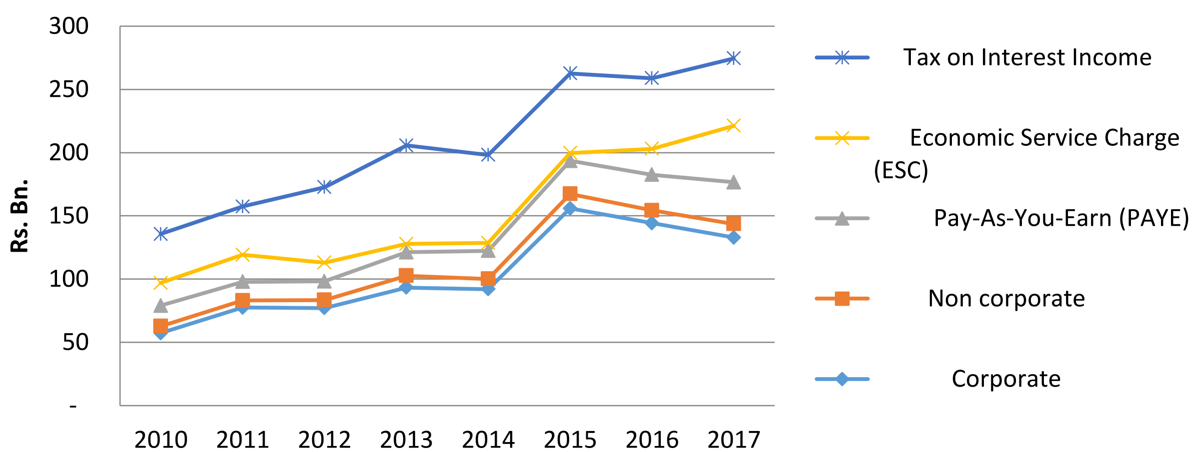
NBT - Import	18,395	19,320	5.0
PAL	88,823	102,360	15.2
SCL	55,825	71,402	27.9
Cess Levy	61,730	59,554	(3.5)
Petroleum - Excise	55,719	73,983	32.8
Motor Vehicles - Excise	186,499	189,740	1.7
License and Other	**46,121**	**43,525**	**(5.6)**
Telecommunications Levy	35,976	33,399	(7.2)
Other	10,145	10,126	(0.2)
Total Tax Revenue	**1,463,689**	**1,670,178**	**14.1**

Source: Department of Fiscal Policy

2.3.1 Tax Revenue

Revision of tax rate of Value Added Tax (VAT) as 15 percent from 11 percent in the end of 2016 and expansion of tax base increased tax revenue by 27 percent to Rs. 444 Mn in 2017. Tax revenue generated from excise duty declined in 2017 due to sales volume of hard liquor and cigarettes were contracted as a government policy to discourage usage of liquor and tobacco. However, government took policy measures to reduce annual Liquor license fees as a part of tourism sector promotion in 2017.

Chart 2.4 Direct Taxes 2010 - 2017



Income Tax: The total revenue generated from income tax including corporate and non-corporate tax, PAYE, ESC and Withholding tax on interest income increased by 6.1 percent to Rs. 274.6 billion in 2017 in comparison to Rs. 258.9 billion in 2016. Economic Service Charges (ESC) increased by 118.6 percent as a result of doubled the tax rate as 0.5 percent in 2017 from 0.25 percent in 2016, extending the taxes to both profit as well as loss making organizations and reduced ESC threashold level to Rs. 12.5 million per quarter since April 01, 2017 from Rs. 50 Mn per quarter in 2016.

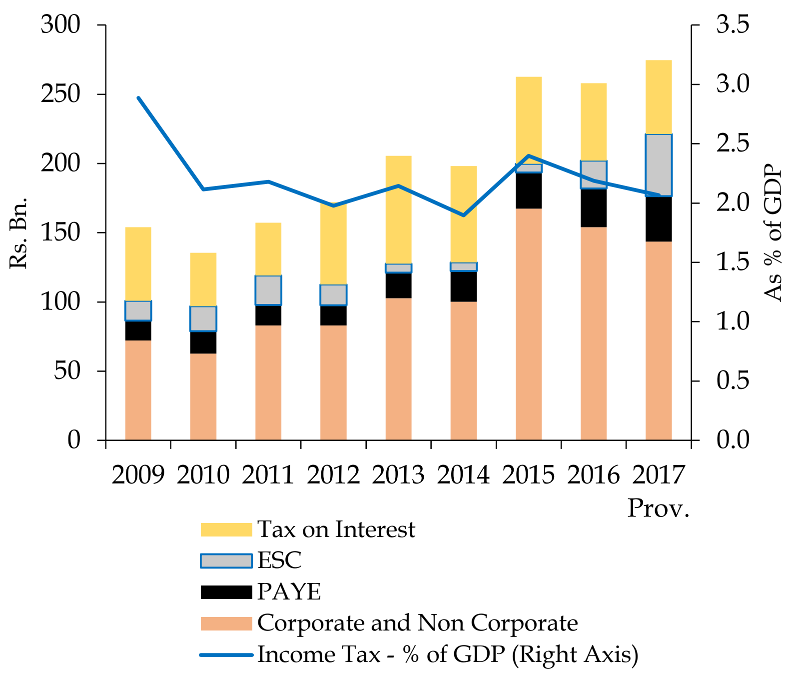
Table 2.6 Performance of Income Tax

Rs. Mn.

Item	2015	2016	2017 (Provisional)	Growth %
Total Income Tax	**262,583***	**258,857**	**274,562**	**6.1**
Corporate & Non Corporate	167,325*	154,324	143,588	-7.0
PAYE	26,206	28,169	32,920	16.9
ESC	6,148	20,458	44,720	118.6
Tax on Interest	62,904	55,906	53,334	(4.6)

** Including Super Gain Tax of Rs. 49.8 bn*

Chart 2.5 Performance of Income Tax



Source-Department of Inland Revenue

The revenue from PAYE tax significantly increased by 16.9 percent to Rs. 32.9 billion in 2017 compared to Rs. 28.1 billion in 2016, reflecting the increase in salaries both in public and private sectors and the rise in employment in high earning categories such as tourism, information technology and professional services. However, the revenue from the tax on interest income declined by 4.6 percent to Rs. 53.3 billion in 2017 compared to Rs. 55.9 billion in 2016. This was mainly due to the relatively lower issuance of the government securities. The estimated income tax revenue in 2017 was Rs. 335 billion of which Rs. 274.6 billion was achieved in 2017. The deviation was due to the delay in implementing the New Inland Revenue Act.

Value Added Tax (VAT): The total revenue generated from VAT significantly increased by 56.5 percent to Rs.443.7 billion in 2017 from Rs. 283.5 billion in 2016. The VAT revenue to GDP ratio expanded to 3.3 percent in 2017 from 2.4 percent in 2016 while the VAT revenue as a percentage of total tax revenue increased to 26.6 percent in 2017 from 19.4 percent recorded in 2016.

Table 2.7 Value Added Tax Revenue

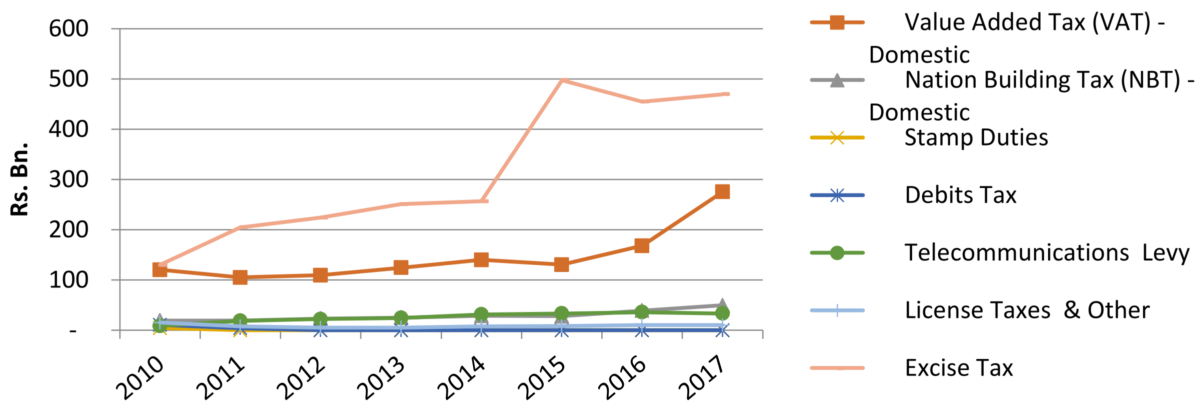
Rs. Mn

Item	2012	2013	2014	2015	2016	2017 (Provisional)
Domestic	112,214	124,658	140,413	131,662	168,817	**276,065**
Imports	120,539	126,538	136,221	89,174	115,339	168,395
Gross Revenue	**232,753**	**251,196**	**276,634**	**220,836**	**284,156**	**444,459**
Refunds	3,149	439	1,284	1,136	686	720
Net Revenue	**229,604**	**250,757**	**275,350**	**219,700**	**283,470**	**443,739**
Net Revenue as a % of GDP	**2.6**	**2.6**	**2.7**	**2.5**	**3.1**	**3.3**

Source: Department of Fiscal Policy

The increase in total VAT revenue was mainly due to the increase in VAT rate from 11 percent to 15 percent and the removal of exemptions granted to the health sector and telecommunication sector in mid-2016. With the expansion of the banking sector, VAT revenue from domestic activities expanded by 63.8 percent to Rs 275.4 billion in 2017 from Rs. 168.1 billion in 2016. Meanwhile, VAT revenue on imports increased by 46.0 percent to Rs.168.4 billion in 2017 from Rs. 115.3 billion in 2016 reflecting the overall increase in imports. The estimated VAT revenue in 2017 was Rs. 380.0 billion of which Rs. 443.7 billion was from the expansion of financial services, the increase in monitoring of payments and receipts with the implementation of RAMIS and strengthening tax administrative process at IRD.

Chart 2.6 Indirect Taxes 2010 - 2017



Excise Duty: The revenue collected from excise duty increased by 3.2 percent to Rs. 469.5 billion in 2017 compared to Rs. 454.9 billion in 2016 supported by the rise in revenue collection from petroleum products and motor vehicles. However, revenue from liquor, cigarette and tobacco declined in 2017. Despite the midest performance, revenue generated from excise duty remained as the largest single contributor accounting of 28.1 percent to the total tax revenue in 2017.

Excise duty revenue from liquor products decreased by 5.5 percent to Rs. 113.7 billion in 2017 from Rs. 120.2 billion in 2016 reflecting the revision of tax base of hard and malt liquor from proof litre to volume based tax. However, production of malt liquor increased by 36.3 percent to 71.1 proof litre million whereas hard liquor declined by 15.5 percent to 46.9 proof litre million due to the downward revision of Excise duty rates on malt liquor and hard liquor. The estimated Excise duty revenue on liquor and cigarette products was Rs. 285 billion in 2017 and was realized Rs. 199.0 billion. This was due to the decline in cigarettes production by 17 percent attributing to the government's policy on discouraging the consumption of tobacco and alcohol products.

Chart 2.7 Cigarette Production and Excise Tax Revenue

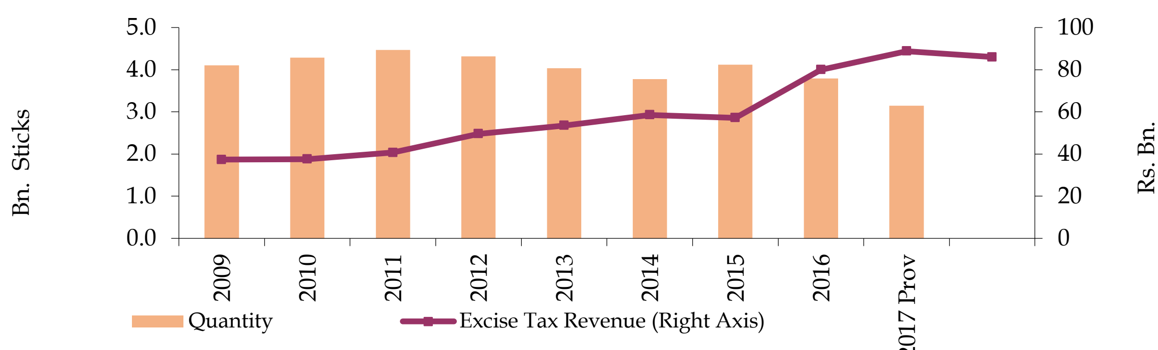
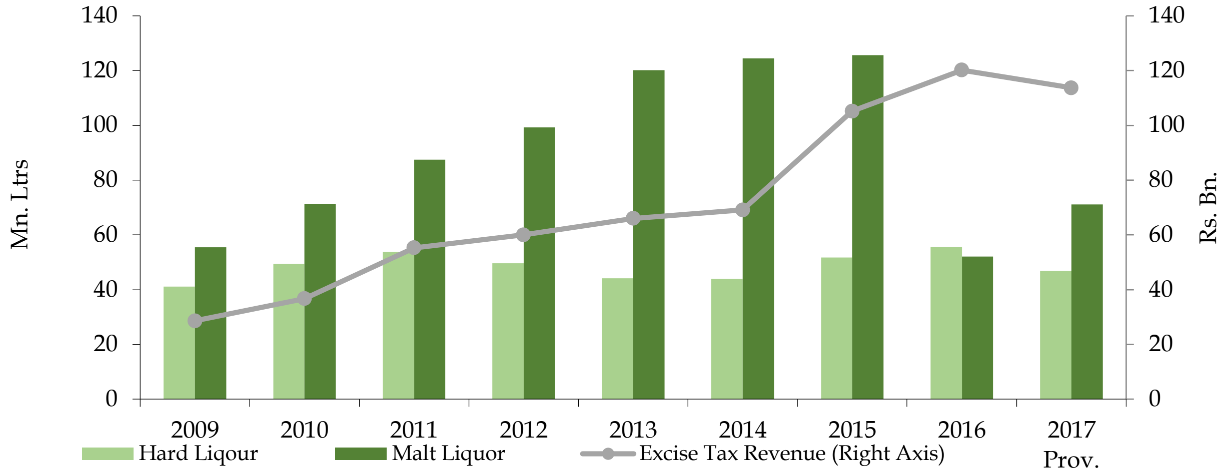


Chart 2.8 Liquor Production and Excise Tax Revenue



Excise duty revenue on motor vehicles imports increased by 1.7 percent to Rs. 189.7 billion in 2017 compared to Rs. 186.5 billion in 2016. Despite the decline in the import of motor vehicles by 1.9 percent to 460,261 vehicles in 2017 from 469,305 motor vehicles in 2016, the excise duty revenue generated from motor vehicles increased in 2017 due to the upward revision of Excise duty in line with the Budget 2017. The actual excise duty revenue from motor vehicles fell below the estimate of Rs. 230 billion mainly due to the decline in motor car imports by 14.4 percent in 2017.

Table 2.8 Production and Excise Tax Collection from Liquor and Cigarettes

Year	Quantity Produced						Excise Tax Revenue			
	Hard Liquor (Liter Mn)	% Change	Malt Liquor (Liter Mn)	% Change	Cigarattes (Mn. Sticks)	% Change	Liquor (Rs.Bn)	% Change	Cigarattes (Rs. Bn)	% Change
2010	49.4	20.2	71.4	28.6	4,286	4.5	37.7	34.2	40.6	8.0
2011	53.8	8.9	87.5	22.5	4,469	4.3	55.8	48.0	49.6	22.2
2012	49.7	-7.6	99.3	13.5	4,320	-3.3	59.9	7.3	53.9	8.7
2013	44.2	-11.1	120.2	21.0	4,035	-6.6	66.0	10.2	58.6	8.7
2014	43.9	-0.6	124.5	3.6	3,777	-6.4	69.1	4.6	57.2	-2.3
2015	51.8	17.9	125.8	1.0	4,116	9.0	105.9	53.3	80.0	39.9
2016	55.6	7.3	52.2	(58.5)	3,789	-7.9	120.8	14.1	88.8	11.0
2017	46.9	-15.5	71.1	36.3	3,149	-16.9	113.7	-5.9	86.0	-3.2

Sources: Department of Fiscal Policy, Department of Customs and Department of Excise

Import of motor cars dropped by 14.4 percent to 36,131 cars in 2017 compared to 42,208 in 2016 mainly due to the increase in duty rates. However, ad-valorem duty rate applicable to electric cars was reduced further to promote environmental friendly motor vehicles. Import of transport vehicles declined by 19.3 percent in 2017 as a result of anomaly correction on Excise duty structure and duty rates applicable on lorries, vans, single cabs, double cabs, crew cabs, refrigerator trucks and garbage trucks. Import of three-wheelers also significantly declined by 60.4 percent mainly due to upward revision of duty on three-wheelers. However, import of motor bicycles increased by 10.4 percent with the introduction of engine capacity based excise duty on motor bicycles, in addition to ad-valorem rate, as a measure of mitigating undervaluation.

Meanwhile, Excise duty on sugar content in the carbonated beverages was imposed effective from November 2017 as a means of discouraging unhealthy consumption habits while Excise duty on plastic resin was imposed to discourage the over usage of plastic and plastic products.

The revenue generated from cigarettes and tobacco declined by 3.2 percent to Rs. 86.0 billion in 2017 compared to Rs. 88.8 billion in 2016. This decline was mainly due to the upward revision of duty rates by 28 percent in October 2016. This has led to a decline of the consumption of cigarettes by 16.9 percent to 3,149 Mn sticks in 2017 from 3,789 Mn sticks in 2016 coupled with the action taken by National Authority on Tobacco and Alcohol (NATA).

The revenue generated from petroleum products significantly increased by 32.8 percent to Rs. 74.0 billion in 2017 compared to Rs. 55.7 billion in 2016 reflecting the increase in import of petrol and diesel by 18.2 percent and 22.5 percent, respectively.

Table 2.9 Motor Vehicle Imports

Item	No of Motor Vehicles				% Change			
	2014	**2015**	**2016**	**2017**	**2014**	**2015**	**2016**	**2017**
Motor Bicycles	322,257	349,441	329,978	364,346	101.7	8.4	-5.6	10.4
Three-Wheelers	83,233	132,865	47,976	19,021	3.3	59.6	-63.9	-60.4
Tractors	5,511	14,233	13,185	10,295	-58.4	158.3	-7.4	-21.9
Transport Vehicles	25,664	44,218	32,161	25,964	0.0	72.3	-27.3	-19.3
Passenger Van and Buses	3,906	4,687	2,849	3,732	140.1	20.0	-39.2	31.0
Motor Cars	41,030	108,866	42,208	36,131	51.5	165.3	-61.2	-14.4
Other	402	510	948	772	-1.5	26.9	85.9	-18.6
Total	**482,003**	**654,820**	**469,305**	**460,261**	**56.3**	**35.9**	**-28.3**	**-1.9**

Source: Department of Customs

Import Duty: Revenue collected from import duty declined by 12.8 percent to Rs. 136.5 billion in 2017 from Rs. 156.4 billion in 2016 mainly due to the adverse impact of the provision of general waivers on major import items such as petrol, diesel, milk powder and wheat grain. The importation of products which are granted duty free or normal status under the Free Trade Agreements (FTA) entered into with various countries such as India and Pakistan, the South Asian Free Trade Agreement (SAFTA) and the Asian Pacific Trade Agreement (APTA) to strengthen the bilateral and regional trade cooperation also resulted in the decline of revenue collected from import duty. The estimated import duty revenue in 2017 was Rs. 165 billion of which Rs. 136.5 billion was realized. This deviation was due to the increase in the tax waivers granted on certain import goods including milk powder, petrol and diesel.

Special Commodity Levy: SCL was introduced in 2007 on a number of essential commodities under the Special Commodity Levy Act, No. 48 of 2007 to encourage the local production and also to protect consumers due to the escalation of prices in the off-season. The revenue from SCL increased by 28 percent to Rs. 71.4 billion in 2017 compared to Rs. 55.8 billion recorded in 2016. SCL accounted for 4.3 percent of total tax revenue in 2017. Improved perforce of SCL was mainly due to the revision of SCL rates and the extension of the validity periods of some items. The actual SCL revenue exceeded the estimate of Rs. 65 billion mainly assisted by the introduction of SCL on rice with effect from 07th January 2017 coupled with the increase in imports of consumer goods by 4.3 percent.

Chart 2.9 Import & Export Taxes 2010 -2017

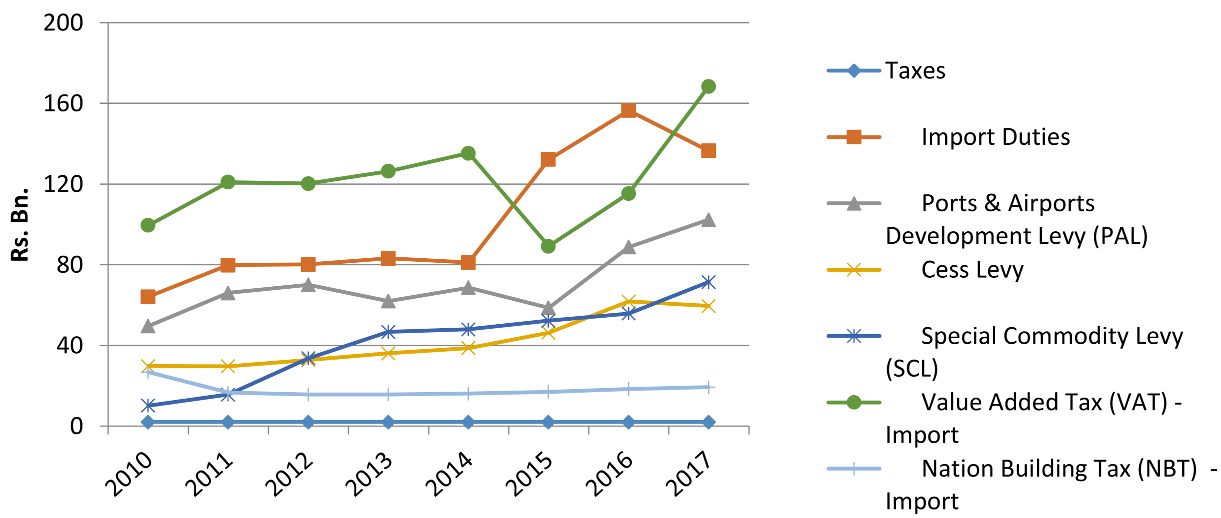


Table 2.10 Special Commodity Levy Rates

Item	Duty Rate (Rs. Per Kg)	
	End 2016	End 2017
Sprats	11	1
Potatoes	10	1
Red Onions	25	25
B Onions	40	1
Garlic	40	40
Green Gram	40	40
Lentils - Whole	5	1
Split	10	3
Chilies - Not Crushed	25	25
Crushed	125	125
Canned fish	50	50
Sugar - White	13	31
- Row/Brown	15	33
Watana - Whole	15	15
Split	18	18
Chick Peas - Whole	7	7
Split	10	10
Black Gram	60	60
Cowpea	70	70
Maldive Fish	102	102
Dried Fish	102	52
Orange-Fresh	65	65
Grapes - Fresh	130	130
Apples - Fresh	45	45
Seeds of Coriander - Neither Crushed nor Ground	26	26
Seeds of Coriander - Crushed or Ground	52	52
Seeds of Cumin	162	162
Seeds of Fennel	162	162
Turmeric - Neither Crushed nor Ground	102	102
Turmeric - Other	360	360
Mathe - Seed	50	50
Kurakkan	70	70
Millet/other	70	70
Kurakkan Flour	150	150
Black Gram Flour	200	200
Ground Nut - Shelled	112	112
Mustard Seeds	62	62
Palm oil / Veg.oil - Crude	150	110

Palm olen	155	115
Refine	170	135
Other Veg.oil Refine (RBD Palm oil)	175	130
Palm kernel -Crude	170	130
Palm kernel -Refine	185	145
Fish	10% of the CIF value or Rs. 75 per kg., whichever is higher	10% of the CIF value or Rs. 100 per kg., whichever is higher
Mackerel	6	6
Yoghurt	625	625
Butter	880	880
Margarine(Fat 80% or more)	215	215
Margarine (Other)	315	315
Salt	40	40
Dates	60	60
Dried Grapes	230	230
Mangosteens	200	200
Dried Orange	200	200
Pears	175	175
Cherries	250	250
Plums and sloes	200	200
Kiwifruit	175	175
Pomegranate (other)	200	200
Maize	10	10
Rice	-	0.25
Coconut Kernel	-	1.00

Source: Department of Trade and Investment Policy

Nation Building Tax: The total revenue from NBT amounted to Rs. 69.0 billion in 2017 compared to Rs. 57.4 billion in 2016. The revenue collected from NBT on domestic activities increased by 27.4 percent to Rs. 49.7 billion while revenue from NBT on imports moderately increased by 3.8 percent to Rs. 19.3 billion in 2017. The policy measures taken to remove the exemptions on construction contractors, sales of residence apartments, services of inbound travel agents received in foreign currency through a bank contributed to increase revenue generated from NBT. In 2017, Rs. 34.4 millions of NBT revenue was transferred to Provincial Councils (PCs) under the revenue sharing mechanism introduced in 2011 as a part of simplification of the tax revenue. The estimated NBT revenue in 2017 was Rs. 66 billion.

2.11 Transfer of NBT Revenue to Provincial Councils-2017

Provincial Council	Revenue (Rs. Mn)	% of the Total
Western Province	16,524	48
Central Province	3,098	9
Southern Province	3,098	9
North Western Province	3,098	9
Sabaragamuwa Province	1,721	5
North Central Province	1,721	5
Uva Province	1,721	5
Eastern Province	1,721	5
Northern Province	1,721	5
Total	**34,426**	**100**

Source: Department of Fiscal Policy

Ports and Airport Development Levy: Revenue collected from PAL increased by 15.2 percent to Rs. 102.4 billion in 2017 compared to Rs. 88.8 billion in 2016 and accounted for 6.1 percent of the total tax revenue in 2017. Increased imports such as intermediate goods by 15.9 percent followed by the increase in imports of fuel, steel and wheat grain in 2017 contributed to increased revenue on PAL. Although the standard rate of 7.5 percent was applied to general goods while the certain items such as petroleum oils, machinery and raw material used for pharmaceuticals and machinery were granted a concessionary rate of 2.5 percent. The removal of PAL on 253 items also had an impact on the PAL revenue collection. The estimated PAL revenue in 2017 was Rs. 110 billion.

Cess Levy: The total Cess revenue declined by 3.5 percent to Rs. 59.5 billion and accounted for 3.6 percent of total tax revenue in 2017 in comparison to Rs. 61.7 billion in 2016. The revenue from Cess on imports declined by 4.2 percent to Rs. 56.5 billion in 2017 reflecting the removal of applicable Cess rates on identified 100 items such as prefabricated buildings, lard, cane molasses, sunflower seeds and defatted coconut, etc. However, the Cess revenue from exports increased by 11.5 percent to Rs. 3.0 billion in 2017 due to the increase in demand for tea, rubber and mineral sectors. In line with Budget 2018, the applicable Cess rates on identified 253 items such as meat, dairy products, dates, grapes, pears, beer and wine, etc were removed. Furthermore, Cess Levy on fresh cheese, food grinders and mixers, wall clocks, safety helmets and onions (dried), to facilitate the availability of goods for value addition and consumption purposes was revised. The estimated Cess revenue in 2017 was Rs. 60 billion of which Rs. 59.5 billion was achieved.

Table 2.12 Cess Revenue from International Trade and Government Subsidy For Agriculture Sector Development 2014-2017

Rs. Mn

Description	2015	2016	2017(a)	Description	2015	2016	2017(a)
Cess on Exports	**2,713**	**2,672**	**2,980**	**Commercial Crop Development**			
Tea-under Tea (Tax and Control of Export) Act, Sri Lanka Tea Board Law	640	587	550	Tea	7,292	549	445
Rubber-under Rubber Replanting Subsidy Act	12	10	90	Rubber	2,871	713	703
Coconut-under Coconut Development Act	127	141	105	Coconut	471	709	598
EDB Cess- under Sri Lanka Export Development Act	1,934	1,832	2,235	Cashew	35	40	54
Cess on Imports				Minor Export Crops (Cinnamon, Cocoa, Coffee, Pepper)	360	380	336
Imports- under Sri Lanka Export Development Act	43,576	59,058	56,574	Fertilizer Subsidy for Total Agriculture Sector Development	49,571	27,771	30,361
Total	**46,289**	**61,730**	**59,554**	**Total**	**60,600**	**30,162**	**32,497**

Source: Department of Customs and Department of National Budget

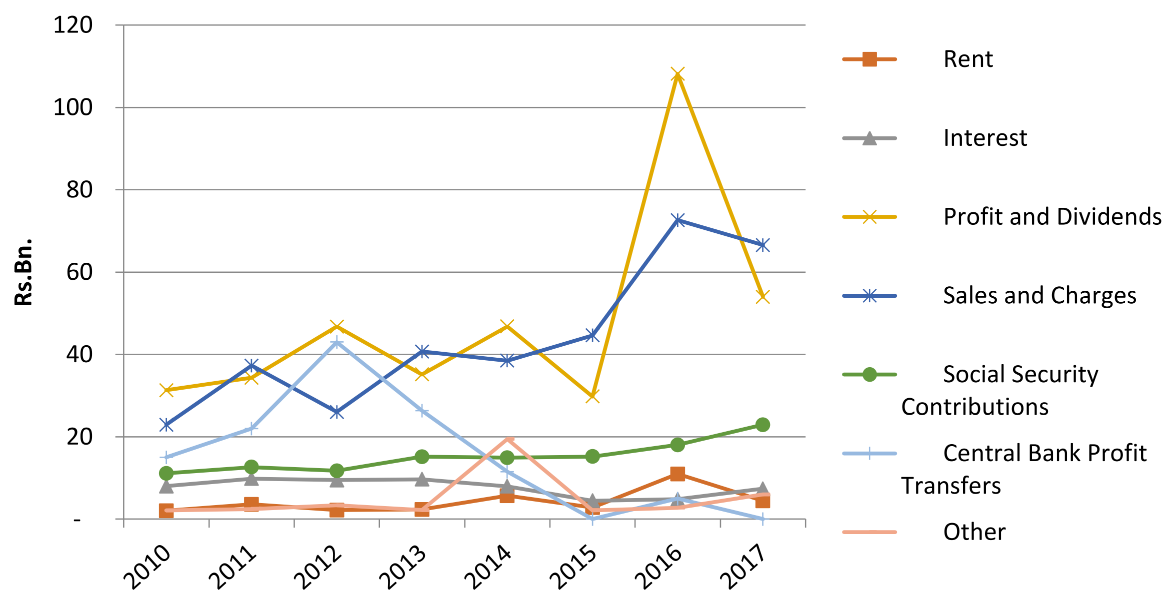
(a) Provisional

Telecommunications Levy: The revenue collected from Telecommunications Levy declined by 7.2 percent to Rs. 33.4 billion in 2017 compared to Rs. 35.9 billion in 2016. The estimated Telecommunications Levy revenue in 2017 was Rs. 43 billion and the underperformance was due to the removal of the taxes for internet services followed by the deferment of the implementation of Sim card activation levy. The Telecommunications Levy on internet services was proposed to increase to 25 percent from 10 percent as per the Budget 2017. However, considering the requests from various sectors in the society, Telecommunications Levy on internet services was removed.

2.3.2 Non-Tax Revenue

The non-tax revenue declined by 27.4 percent to Rs. 161.4 billion in 2017 compared to Rs. 222.3 billion recorded in 2016. Non-tax revenue to GDP ratio declined to 1.2 percent in 2017 from 1.9 percent of GDP in the previous year. This revenue decline was mainly due to the fall of profits and dividends from the SOBEs by 50.1 percent to Rs. 53.9 billion, rent income by 59.5 percent to Rs. 4.4 billion, sales and charges by 8.3 percent to Rs. 66.5 billion and non-record of Central Bank's profit transfers for 2017 fiscal year. However, the non-tax revenue from interest income significantly increased by 53.2 percent to Rs. 7.4 billion in 2017 compared to the previous year.

Chart 2.10 Non –Tax Revenue



Moreover, the non-tax revenue from social security contributions also increased by 27.1 percent to Rs. 22.9 billion in 2017 compared to Rs. 18.0 billion in the previous year. The estimated non-tax revenue in 2017 was Rs.133.3 billion and deviation of actual revenue was mainly due to contraction in profits and dividend transfers from SOBEs.

Table 2.13 Non Tax Revenue

Rs. Mn.

Item	2012	2013	2014	2015	2016	2017 (Provisional)	2016/2017 (% change)	2017 (% of Total Non-Tax Revenue)
Interest/Rent	11,686	11,995	13,647	7,321	15,806	11,845	-25.1	7.3
Profits and Dividends	46,761	35,169	46,814	29,798	108,160	53,998	-50.1	33.5
Sales and Charges	26,019	40,721	35,499	44,632	72,606	66,575	-8.3	41.3
Social Security Contribution	11,738	15,145	14,919	15,213	18,046	22,940	27.1	14.2
Central Bank Profit Transfers	43,000	26,350	11,500	-	5,000	-	-100.0	0.0
Other	3,343	2,173	22,466	2,135	2,754	5,995	117.7	3.7
Total	**142,547**	**131,552**	**144,845**	**99,099**	**222,372**	**161,353**	**-27.4**	**100.0**

Source: Department of Treasury Operations, Department of State Accounts and Department of Fiscal Policy

Table 2.3.3 Variance Analysis of Government Revenue

Rs. Bn.

Item	2016	2017 Est.	2017	Reason
Income Tax	258.9	334.5	274.6	The reasons for deviation of actual revenue in 2017 from actual revenue in 2016 were threefold: (i) The revenue from the corporate and non-corporate income tax declined due to the increase in revenue from ESC by 118.6 percent which can be credited against income tax. The increase in revenue from ESC was due to reduction of ESC threshold and the imposition of ESC on importation of mortar vehicles; (ii) the revenue from interest income declined due to the relatively lower issuance of the government securities; and (ii) in contrast, the revenue from PAYE increased with the increase in salaries and the rise in employment in high earning categories. The deviation from the estimated income tax revenue against the actual revenue was mainly due to the delay in implementing the New Inland Revenue Act in 2017.
VAT	283.5	380	443.7	The increase in VAT rate from 11 percent to 15 percent, removal of exemptions granted to the health sector and telecommunication sector in mid-2016 and the expansion of the banking sector, the rise in imports bill were attributed to increasing the actual revenue. The actual VAT revenue surpassed the estimated revenue due to the following reasons: (i) expansion of financial services; (ii) the increase in monitoring of payments and receipts with the implementation of RAMIS and tax audits; and (iii) strengthening tax administrative process at IRD.
Excise Tax	455.0	579.0	469.5	The increase in revenue collected from excise duty was supported by the rise in revenue from petroleum products and motor vehicles. Excise duty from motor vehicles increased due to the upward revision of Excise duty. However, revenue from liquor, cigarette and tobacco declined due to the reduction in consumption by 15.5 percent and 16.9 percent, respectively. The estimated excise duty from motor vehicles was not achieved due to the decline in motor car imports by 14.4 percent a. The drop in

				consumption of liquor, cigarette and tobacco has also contributed this deviation.
Import Duty	156.5	165.5	136.5	The adverse impact of the provision of general waivers on major import items such as petrol, diesel, milk powder and wheat grain and the importation of products which are granted duty free or normal status under the Free Trade Agreements (FTA) were contributed to the decline in revenue collected from import duty in 2017.
Port and Airport Development Levy (PAL)	88.8	106.0	102.4	PAL revenue increased due to the increase in imports of intermediate goods such as fuel, steel and wheat grain etc. However, the standard rate of 7.5 percent applied to general goods, such as petroleum oils, machinery and raw material used for pharmaceuticals and machinery were granted concessionary rate of 2.5 percent which has led to this deviation.
Nation Building Tax (NBT)	57.4	66.0	69.0	The revenue from NBT increased due to the policy measures taken to remove the exemptions on construction contractors, sales of residence apartments, services of inbound travel agents received in foreign currency etc. The removal of exemptions and the implementation of RAMIS were attributed to surpass the revenue estimate for 2017.
Other Taxes	163.60	195.92	174.50	The revenue from Cess on imports declined by 4.2 percent due to the removal of applicable Cess rates on identified 100 items such as prefabricated buildings, lard, cane molasses, sunflower seeds and defatted coconut, etc. However, the Cess revenue from exports increased due to the increase in world demand for tea, rubber and mineral sectors. The revenue from Telecommunications Levy declined due to the removal of the taxes for internet services.
Non Tax Revenue	222.4	183.3	161.3	The decline in payment of profits and dividends by State Owned Business Enterprises and the drop in rental income and the non-report of profit transfers from the Central Bank were mainly attributed to the decline in non-tax revenue. However, the collection of Social Security Contribution from public sector employees due to basic salary hike, the increase in embarkation levy to USD 50 per ship and air passengers and increased passport and visa fees were positively contributed to the non-tax revenue.
Total	**1,686.1**	**2,010.3**	**1,831.5**	

Compiled by the Department of Fiscal Policy

2.4 Fiscal Strategies and Challenges

2.4.1 Government's Fiscal Strategy

Government's fiscal strategy is driven by the objectives of achieving further stabilization of the economy, efficient reallocation of resources, and effective redistribution of income, by means of managing the level and composition of government spending and revenue, and the related accumulation of government assets and liabilities.

Within the context of the broader framework of Government's fiscal strategy, the medium-term fiscal framework is formulated with a view to furthering fiscal consolidation efforts through a sustainable reduction of the fiscal deficit and public debt while enhancing revenue mobilization.

In order to facilitate the Government's fiscal strategy various reform initiatives were undertaken in such areas as taxation policy and administration, expenditure management, government debt management, reforms in state-owned-enterprises, public finance and procurement management, among others.

Most notable such initiatives include the enactment of new Inland Revenue Act and introduction of improvements to revenue administration measures. In particular, the new Inland Revenue Act would not only enhance government revenues but also make the tax system more equitable, by raising the share of direct taxes compared to indirect taxes. Government shows firm commitment towards improving the direct tax to indirect tax revenue ratio, from the current level of 16 percent and 84 percent, respectively, in 2017.

Other notable reforms initiatives undertaken in 2017 include the introduction of an Information Technology Based Commitment Control System as a major step towards effective public finance management, signing of Statement of Corporate Intent (SCI) with major State-Owned-Enterprises, among others. Because the SCIs are expected to bring greater transparency in SOEs' financial operations, and the government intends to expand the coverage of SCIs to include additional SOEs.

Further, proposed measures to introduce a market based pricing mechanism for fuel and electricity would ease pressure on the government arising from the implicit fuel and electricity subsidies. Nonetheless, government may need to take targeted measures to address any adverse impact of such possible price increases on the most vulnerable segments of the society. It is expected that the fiscal cost of such targeted fiscal spending on the most affected segments would be far below the savings from the implicit subsidies through market based pricing structures.

A major priority of the Government's fiscal strategy is to firmly commit towards effective redistribution of income through well targeted transfer schemes. As an initial step, government activated the Welfare Benefits Board (WBB) in order to facilitate rationalizing and broadening the coverage of the various social welfare schemes.

The WBB has already commenced the creation of a national database, including a social registry for beneficiaries of welfare schemes, such as Samurdhi, elderly benefit schemes, disabled benefit schemes, chronic kidney disease benefit etc. It is envisaged that the selection of beneficiaries would be made in a more transparent and effective manner.

Government's fiscal strategy places a significant emphasis on the continuous improvements in the coverage, timeliness, and periodicity in fiscal reporting. Initiatives such as quarterly reporting to Parliament on government expenditure and income performance, publishing quarterly budget estimates would strengthen parliamentary control over public finances while improving budget monitoring process. Further, publishing tax expenditure statements[1] along with the budget estimates ensures that Sri Lanka's budget documents follow international best practices with enhanced transparency, while there is further room for improvement.

The success of the government fiscal strategy reflects heavily on the curtailment of budget deficit and consolidation of government debt over the medium-term. As debt repayment obligations are to rise significantly over the medium-term, gross financing needs may increase. Against this backdrop, measures such as active liability management introduced through the Active Liability Management the Act, No. 8 of 2018 (ALMA) would support government's efforts to raise funds in advance, as conditions become preferable to raise funds with the least cost for the government.

2.4.2 Major Fiscal Challenges

Government fiscal operations in 2017 met with multiple challenges due to slower than expected economic growth and the delay in implementing several revenue measures.

Restraining the Fiscal Deficit: Realization of the medium-term fiscal strategy is fraught with numerous challenges. It requires stricter adherence to envisaged path of primary surplus while frontloading fiscal consolidation measures to reduce the overall budget deficit to 3.5 percent of GDP by 2020 and beyond. Restraining the fiscal deficit along the envisaged path requires a credible commitment and fullest co-operation from all revenue collecting and spending agencies.

Enhancing the Tax Return Compliance: Low tax compliance limits the capacity of the government to raise revenue. This becomes a serious concern when the government revenue collection is already low. Sri Lanka's tax return compliance remains low as there exist significant compliance gaps in major tax components. According to the Inland Revenue Department, tax return compliance gap (after month of due date) in income tax categories remains in the range of 41-54 percent, while the same on VAT is 29 percent in 2015/16 assessment year. With regard to other major taxes such as NBT and PAYE compliance gap remains high. it is expected that the introduction of RAMIS would help minimize the tax compliance gap, however the full roll-out of the RAMIS with an effective implementation mechanism is yet to be completed.

Expenditure Management: Sri Lanka faces multitude of challenges in government expenditure management causing significant risks on the government efforts towards credible fiscal consolidation over the medium-term. The main areas of such challenges include: rising debt servicing requirements; an extensive social safety network that is not well targeted and fraught with high level of leakages; a non-funded pension scheme in the backdrop of an ageing population; management inefficiencies and the non-implementation of cost-reflective tariff structures of State-Owned-Enterprises (SOEs); frequent natural disasters; budgeted revenue falling short of estimates due to implementation delays casing cash management issues etc. Urgent measures are needed to arrest these developments and mitigate any fiscal impact in order to ensure that government expenditure is maintained as planned. Measures are underway in certain areas such as improving performance of SOEs, so that fiscal burden will lessen.

Public Investment Management: Public investment provides much needed infrastructure for the economy to be competitive and achieve inclusive economic growth as the country gradually reaches the upper middle-income status. Public investment has improved infrastructure in the country and the quality of infrastructure is perceived well in general, but the recently conducted Public Investment Management Assessment (PIMA) finds that Sri Lanka's public investment is yet to deliver the expected economic benefits, highlighting the need for improving the efficiency and effectiveness of public investment. Strengthening public investment management and enhancing the efficiency of public investment are critical for Sri Lanka to remain competitive, given the thin fiscal space as fiscal consolidation efforts continue and concessionary funding becomes scarce.

Larger Debt Repayment Requirements: The government faces significantly high debt repayments over the medium-term. The gross financing need of central government (the sum of maturing debt and budget deficit) is expected to rise above 12.5 percent of GDP on average during 2018-2019.

Consolidation of Government Debt: The outstanding central government debt reached 77.6 percent of GDP at end 2017. Sri Lanka's debt to GDP ratio remains higher than the emerging market and middle income economies average of 49 percent at end 2017. Such level of government debt is a burden for the economy unless managed prudently. A reduction of government debt needs to be supported by several favorable factors such as primary surpluses, higher real economic growth, lower real interest rates, and stable exchange rates, among others.

3.0 Documentary in Terms of Fiscal Management (Responsibility) ACT, No 03 of 2003.

3.1 Annual Report – 2016

The Final Budget Position Report (Annual Report) is required to submit to Parliament and issue for the general public before the expiry of five months from the end of the financial year. Accordingly, the Annual Report 2016 was published in May, 2017.

3.2 Mid-Year Fiscal Position Report – 2017

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 2017 was published in June, 2017.

3.3 Fiscal Management Report – 2017

Fiscal Management Report 2017 consisting Fiscal Strategy Statement (under the sections 4, 5 and 6) and Budget, Economic and Fiscal Position Report 2017(under the sections 7, 8 and 9) of Fiscal Management (Responsibility) Act, No. 03 of 2003 was published in October, 2017.

3.4 Performance Report

3.5 Record on RTI

4.0 Performance of Administration and Finance

4.1 Cadre Position

The Department of Fiscal Policy consists of an approved cadre of 60. Accordingly, the following staff serves in the Department.

Table 4.1 Details of the staff- 2017 (as at 31.12.2017)

Designation	Approved cadre	Present Cadre	Vacant
Director General – SLAS	01	01	-
Additional Director General-SLAS	01	-	01
Director – SLAS	02	02	-
- SLPS	01	01	-
Deputy Dir./Assistant Dir.-SLAS	09	04	- ⋆
Deputy Dir./Assistant Dir.-SLPS	05	05	-
Accountant – SLAcS	01	01	-
Administrative Officer	01	01	-
Translator (English/Sinhala)	01	-	01
Translator (English/Tamil)	01	01	-
Development Officer	10	08	02
Public Management Assistant	13	12	01
Driver	05	05	-
OES	09	09	-
Total	**60**	**50**	**05**

⋆ *Including 02 Inland Revenue Officers*

4.2 Skill Development Programs

4.2.1 Local Training

Table 4.2 Local Training- 2017

Name	Designation	Programme & the Institute	Duration
Dr.M.K.C. Senanayake	Director	Special Lecture on "Combating Procurement Fraud through First Class Public Procurement"	25 January 2017
		Workshop on the "Role of Audit and Management Committee"	06 July 2017
Miss.M.A.C.N.Senevirathne	Assistant Director	Workshop on the "Role of Audit and Management Committee"	20 July 2017
Miss.D.G.N.Kumari	Assistant Director	Special Lecture on "Combating Procurement Fraud through First Class Public Procurement	25 January 2017
		Workshop on the "Role of Audit and Management Committee"	06 July 2017
		ITMIS	25 October 2017
		Public Procurement Management	24-26 July 2017 (03 days)
Miss.L.D.U.M.Zoyza	Assistant Director	Special Lecture on "Combating Procurement Fraud through First Class Public Procurement	25 January 2017
		Behavioral Economics, Ethics and Public Policy for Middle and Senior Level Staff Officers	17-21 July 2017 (05 days)
		Public Procurement Management	24-26 July 2017 (03 days)
Miss.R.M.K.M.Lakmini	Assistant Director	Public Procurement Management	24-26 July 2017 (03 days)

Miss.Y.N.C.De Silva	Development Officer	Basic Report Writing Skills	20 -22 March 2017 (03 days)
		DEJE	24 April to 28 December 2017
Mrs.T.P.Ariyathilake	Public Management Assistant	2 Day Programme on FR	03 January 2017
		Formal Letter Writing Skills	25-26 September 2017 (02 days)
Miss.W.R.Maduwanthi	Public Management Assistant	2 Day Programme on FR	13-14 March 2017 02 days)
		2 Day Programme on Public finance & Accounting Skills	16-17 August 2017 (02 days)
Miss.S.W.S.N.Dilanthika	Public Management Assistant	DEJE	24 April-28 December 2017
		Formal Letter Writing Skills	02-03 May 2017 (02 days)
Miss.J.S.Dilmini	Public Management Assistant	DEJE	24 April-28 December 2017
Mr.M.W.C.W.Warnapura	Public Management Assistant	DEJE	24 April-28 December 2017
Miss.W.N.D.Silva	Public Management Assistant	DEJE	24 April-28 December 2017
Miss.M.R.D.Prenando	Public Management Assistant	Formal Letter Writing Skills	2-3 May 2017 (02 days)
		DEJE	19 October 2017
		ITMIS	25 October 2017
Miss.L.M.N.Fazniya	Public Management Assistant	File Management, General Office Administration and E Code	28-30 August 2017 (03 days)
		DEJE	19 October 2017
Mr.W.S.Chinthaka	Development Officer	Formal Letter Writing Skills	25-26 September (02 days)

Miss.R.D.S.D.Deshapriya	Development Officer	Formal Letter Writing Skills	25-26 September (02 days)
Miss.Deepika Wasanthi	Development Officer	Formal Letter Writing Skills	25-26 September (02 days)
Miss.W.N.R.Lalani	Development Officer	DEJE	19 October 2017
Miss M.G.R.S.Danapala	Public Management Assistant	ITMIS	25 October 2017

4.2.2 Foreign Training and Conferences

Table 4.3 Foreign Training and Conferences - 2017

Name	Designation	Training Programme	Period
Mr. A. K. Seneviratne	Director General	Participate in the non-deal road show meeting with investors -Singapore, USA, Hong Kong	8th – 20th March 2017 (19 days)
		Participate in the non-deal road show meeting with investors - UK ,UAE	26th – 28th March 2017 (03 days)
		8th IMF Fiscal Forum - Washington DC	22nd – 23rd April 2017 (02 days)
		Global Forum on VAT - Paris	10th – 16th April 2017 (07 days)
Dr. M. K. C. Senanayake	Director	Training Programme on Strengthening Public Policy Making Process – Australia	20th – 24th March 2017 (05 days)
		To attend the delegation for the site visit for the site visit for tender of Supply of Foolproof Sticker Management System for liquor & Liquor based Products - India, Thaiwan, Kenya	21st April – 1st May 2017 (11 days)
		Australian Award Fellowship Programme - Australia	20th October to 18th December 201 (60 days)
Mr. A Saarrankan	Director	Second Country Exposure tour as a	11th to 18th November 2017

		part fulfilment of the SLAS Class –I Capacity Building Programme – Malaysia	(08 days)
Miss. W. T. A. Perera	Tax Advisor	Selected issues on Fiscal Law & Governance - USA	1st – 10th April 2017 (10 days)
		To attend the annual seminar on Tax Treaties - UAE	20th to 22nd November 2017 (03 days)
		Seminar on Managing Fiscal Risk in Emerging Market Economics – Tailand	28th November 2017 to 01st December 2017 (05 days)
Mr. R. M. R. S. B. Dissanayake	Deputy Director	8th IMF Japan High Level tax conference for Asian Countries – Japan	22nd – 23rd March 2017 (02 days)
		SEA regional forum to accelerate NCDs prevention & control in the Context of SGDs - Thailand	8th to 12th October 2017 (05 days)
Mr. K. K. I. Eranda	Deputy Director	NEDA'S training course on Debt Management & Fiscal Issues - Thailand	19th to 23rd June 2017 (05 days)
		Capacity Building Seminar on Medium Term Revenue Strategy & Related Issues - Phillippines	30th November to 4th December 2017 (05 days)
Miss. D.G. N. Kumari	Assistant Director	2017 Seminar on Service trade for Developing Countries - China	21st April – 11th May 2017 (21 days)
Miss. H. D. A. Rukshini	Assistant Director	International taxation for Asian Countries - Japan	8th -30th May 2017 (23 days)
Miss. J. Chandramohan	Assistant Director	Public Financial Management - India	4th to 10th June 2017 (07 days)
Mr. K. M. Kumarasiri	Assistant Director	Negotiations for a double taxation avoidance agreement between Sri Lanka & Czech Republic - Czech Republic	24th April – 30th May 2017 (37 days)
		Financial Development & Financial Inclusion (FDFI) in Singapore - Singapore	8 th to 21st October 2017 (14 days)
		Macroeconomic Management for effective governance and sustainable inclusive economic growth - Australia	20 th November - 15 th December 2017 (27 days)
Miss. L. D. U. M. Zoysa	Assistant Director	Fiscal Analysis & Forecasting - India	20th – 31st March 2017 (12 days)
Miss. R M K M Lakmini	Assistant Director	8th IMF Japan High Level tax conference for Asian Countries - Japan	22nd – 23rd March 2017 (02 days)

		Government Finance & Public Sector Debt Statistics - India	18th to 22nd September 2017 (05 days)
Miss. W G C D S Rajakaruna	Assistant Director	Seminar on Financial services & Cooperation for Developing Countries - China	02nd to 22nd June 2017 (21 days)
		Seminar on Managing Fiscal Risk in Emerging Market Economics - Thailand	28th November 2017 to 1st December 2017 ((05 days)
		Course on Public Investment Management - India	3rd to 8th December 2017 (06 days)
Miss.W K S Rosihini	Development Officer	2017 Seminar on Alcohol Distribution Management & promotion for countries along the Silk Road Economic Belt - China	20th May – 06th June 2017 (17 days)
Mr. E M K G K M Ekanayake	Development Officer	Training Course on Financial Programming & Policies - India	18th June – 01st July 2017 (14 days)

4.3 Financial Resource and Account

4.3.1 Budgetary Provisions and Utilization

Provisions for 2017 have been made to this department under budget estimates Head 238 and the utilization of such provisions is as follows.

Table 4.4 Utilization of Budgetary Provision- 2017

Description of Expenditure	Estimate Rs.	Net Provisions Rs.	Actual Expenditure Rs.
Recurrent expenditure	**3,725,091,000**	**3,730,591,000**	**54,276,436.02**
Personal Emoluments	32,500,000	32,500,000	30,050,843.38
Traveling Expenses	3,100,000	10,458,070	10,430,431.97
Supplies	2,470,000	2,890,000	2,614,530.28
Maintenance Expenses	3,400,000	3,400,000	1,844,836.59
Contract Services	3,682,921,000	3,680,642,930	8,790,558.79
Transfers and Others	700,000	700,000	545,235.01

Capital Expenditure	**2,600,000**	**2,600,000**	**1,145,560.00**
Rehabilitation and Improvements	-	-	-
Acquisitions	2,000,000	2,000,000	277,097.29
Capital Transfers	-	-	-
Skill Development	600,000	600,000	108,300.00
Total	**3,727,691,000**	**3,733,191,000**	**54,661,833.31**

4.3.2 Advance Account of Public Servants

The details of the advance account of the Public Servants of this department for the year 2017 are given below.

Table 4.5 Utilization of Advance Account - 2017

Description	Approved Limit (Rs.)	Actual Limit (Rs.)
Maximum Expenditure Limit	4,000,000	3,972,257.00
Minimum Receipt Limit	1,500,000	1,988,636.48
Maximum Debt Balance Limit	14,000,000	9,606,121.48

4.3.3 Audit Queries

04 audit queries from the Department of Management Audit of the Ministry of Finance and 13 audit queries from the Auditor Generals Department, received in 2017, were answered.