

Statement by Ministry of Finance and Economic Affairs

Five year Tax exemption on Agro industry with income tax reduction from 28 % to 14%

In order to promote the agricultural production in the country for exports and consumption purposes the government has decided to provide 5 year tax exemption to the agricultural based small and medium industry. In addition the annual income tax rate on processing industries using local agricultural commodities to be reduced from 28 per cent to 14 per cent.

Further, as measure to ease the serious hardships to small holder business operations, it is proposed to raise the threshold for the application of ESC Economic Service Charge from Rs. 12.5 million per quarter to Rs.50 million per quarter.

These relief measures have been taken on the instruction of the President and the Minister of Finance and Economic Affairs are aimed at providing highest priority to agricultural development.

Accordingly the government is of the view that every effort should be made to make use of the 2018 /19 Maha cultivation season as a new beginning

Therefore, Agricultural income generated specially by the small scale entrepreneurs in the cultivation of any agricultural produce such as tea, spices, coconut, rubber, paddy, fruits, vegetables, etc, to be exempted from income taxation for a period of 5 years.

With the introduction of several changes to the tax system by the previous government, Sri Lanka's business community particularly the small and medium entrepreneurs those engaged in professional and other services and agricultural activities have been confronted with complex taxation and heavy tax burden. In addition to the imposition of high income taxes on wage income and other remuneration, interest and rent incomes, tax burden has also increased through high tax rates and reduction in tax free thresholds for the implementation of Value Added Tax (VAT), Nation Building Tax (NBT) Economic Services Charge (ESC), withholding taxes, etc. People are looking for a simple, broad based, low tax rates, a transparent tax system and a simplified tax administration. Such a system of taxation is important to provide an environment conducive for doing domestic business in the SME sector, professional and other services and agricultural activities. While formulating a simple tax system takes some time, the Hon Mahinda Rajapakse, Minister of Finance and Economic Affairs, proposes at this stage to introduce some specific measures towards providing incentives that will enable SMEs and small sector business activities to revive rapidly.

Furthermore, the climate has become extremely favourable for full scale cultivation of agricultural crops in both the plantation sector as well as non-plantation agricultural

activities such as paddy, grain, fruit and vegetables and as such the government has already taken measures to reduce fertilizer prices, write off interest and penalties of agricultural credits and reduce income tax rates on agricultural income by such entrepreneurs.

His Excellency the President and the Minister of Finance and Economic Affairs are in complete agreement that highest priority should be given to agricultural development and accordingly the government is of the view that every effort should be made to make use of the 2018 /19 Maha cultivation season as a new beginning to raise agricultural production in the country for exports such as tea, spices, and other exportable crops as well as for domestic food consumption and for industrial raw materials. In this context, full scale cultivation using all cultivable land and increase in agricultural productivity to get maximum yields will be incentivized.

Therefore, following measures are proposed for implementation.

- a. Agricultural income generated specially by the small scale entrepreneurs in the cultivation of any agricultural produce such as tea, spices, coconut, rubber, paddy, fruits, vegetables, etc, to be exempted from income taxation for a period of 5 years.
- b. Income tax rate and profit on processing industries using local agricultural commodities to be reduced from 28 percent to 14 percent.

These two proposals will encourage entrepreneurs in agriculture to engage in cultivation activities and increase the supply to local processing industries and improve market supply for both export and domestic consumption. It also noted that several tea factories are operating below capacity as local production is not adequate, and therefore it is important that tea production be increased as a priority.

- c. Previous government has increased the ESC from 0.25 percent to 0.5 percent and reduced threshold level to Rs. 12.5 million. This has imposed serious hardships to small holder business operations. Therefore, it is proposed to raise the threshold for the application of ESC from Rs. 12.5 million per quarter to Rs.50 million per quarter.
- d. Recognizing the priorities attached by this government to environmental friendly renewable energy sourced power generation, it is proposed that expenditure on the transition to renewable energy sources including the installation of solar panels, tea, rubber, coconut, rice and other agricultural processing factories be recognized as deductible expenses in the computation of taxable profits.
- e. In view of the setbacks in economic activities during the past 3 years owing to sharp reduction in private sector credit facilities, high interest rate policies, high taxation at all levels, many entrepreneurs particularly those who engaged in household level businesses and small and medium sized businesses have not been able to service their borrowings from banking and financial institutions on a regular basis. As a result, not only the borrower but also their guarantors have been listed as defaulters in the Credit Information Bureau (CRIB) which has led banks to curtail or suspend credit facilities to such borrowers and guarantors. It is in this background that the Economic Revival Package announced on 1 November 2018 included extending support to the farmers and small paddy millers by way of writing off the interest and penal interest on loans taken in the last 3 years, up to a maximum of Rs.50 million

from commercial banks. While accelerated support was provided to the agriculture sector enabling them to seize the good weather conditions, it is acknowledged that other sectors including Tea small holders, SME's in Construction, apparel, manufacturing etc are also faced with a situation in which their growth has been stymied with lack of access to markets, credit etc. In this context, the Treasury has already been directed to design a package that will support SME entrepreneurs in the short run to be able to access finance and revive their businesses.

f. As a relief to the consumers, taxes on *Watana* will be waived/removed by Rs. 10 per Kg. In addition, the government has already reduced fuel prices and taxes and prices of several other commodities to reduce cost of living particularly for low income families.

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23.11.2018