

BUDGET SPEECH 2014

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1.0 Introduction

- 1.1 Honourable Speaker, I am pleased to present the 9th Budget of the United People's Freedom Alliance Government having made use of the previous 8 Budgets to bring about national security, peace and economic progress to our nation. Our nation is proud today that our Government has converted the once mined lands of the North and East into lands that harvest the dividend of peace and prosperity. The consolidation of the democratization process of the 30 year terrorist trapped North, having institutionalized a Provincial Council and Local Authorities in the province through free and fair elections, has further enriched the pride of our nation.
- 1.2 Almost 2 months ago, elections were held in 3 provinces that represent around one third of the population. All political parties participated actively and demonstrated how well the longstanding democratic process has advanced in our country. Out of the 2.7 million votes total polled in three distinctly different provinces, 1.5 million, which is 56 percent voted for the People's Alliance Government. Our Government is encouraged that a substantial majority of our people continue to place their confidence in "*Mahinda Chintana- Vision for the Future*" which, is designed to create a proud future for their children. We were further encouraged by the fact that in the North, an overwhelming majority of people have placed their confidence in the democratic process which was denied to them by the LTTE for 25 long years, and proceeded to use the opportunity to elect its Provincial Council for the first time.
- 1.3 Honourable Speaker, this Budget is also presented soon after hosting the 23rd and the first ever Commonwealth Heads of Government Meeting held in South Asia. It is also the first ever global event that was held in our country since the Non-Aligned Conference held in 1976. We ought to be proud that we were able to restore the prestige of our motherland by being able to mobilize 53 countries and giving them an opportunity to see for themselves the turnaround we have made. The conference also gave ample opportunities to the leaders who attended to witness the economic progress we have made and the stable democracy that prevails, which will convince them that the fabricated viewpoints being aired by those who are campaigning against us are grossly wrong. The rare opportunity we secured by hosting this summit to promote investment opportunities for our country aiming both the vast external markets in the Commonwealth countries as well as the connected global markets, is our main economic benefit from this summit. By hosting this summit 20 years after it was last held in an Asian country, Sri Lanka while bringing pride to the whole of Asia was also able to attract global attention to our economy as one of the leading economies in emerging Asia. This will also pave way to increase investments and create employment opportunities. The successful conclusion of this summit with the transfer of leadership of the Commonwealth to our nation is a clear reflection of international recognition of our Government's foreign policy.
- 1.4 Despite the predictions of dooms and glooms about the economy, we are humbly proud to note that the poverty level has steadily declined to 6.4 percent in 2013 from 15.2 percent in 2006. This did not happen by accident. We took electricity, which was available only to urban areas to almost the entire population. We no longer remember the days of power-cuts. Electricity for all and at all times, is now a reality. Other facilities such as access to water, quality roads, irrigation systems for lands in the dry zone, better schools, hospitals, housing, sanitation and environment preservation have improved

considerably and continue to expand all over the country. “*Mahinda Chintana* towards a new Sri Lanka” our Government’s mandate recognizes that these are basic needs of the people.

1.5 None of this could have been possible if our security forces did not bring about peace and national security. Our committed farmers brought about food security. Our people who work overseas brought valuable foreign exchange to their motherland. Our teachers were committed to provide quality education to our students and our health workers were committed to improve health standards of our people. Our rural based public servants worked hard to revive the rural economy. Our religious leaders worked towards religious harmony. Reviving creative initiatives, our artists brought back the values of our culture and arts. Our labour force ensured a higher national income through industrial peace and continued productivity improvements. Global financial institutions and entrepreneurs placed confidence in our economy. They all deserve a heartfelt appreciation for their uncompromising commitment to promote peace, national reconciliation and economic progress.

2.0 The Economy

2.1 Honourable Speaker, our economy continues to progress steadily. The economic growth of 6.4 per cent registered last year amidst adjustments made due to global instabilities and high oil prices and further challenges due to the severe drought that was experienced, has increased to 7.8 percent in the third quarter of this year. There is confidence that the economic growth will exceed 7 percent this year and move towards 7.5 - 8 percent during the medium term of 2014 - 16 maintaining a growth in the real economy well in excess of the expected 5 - 6 percent inflation.

2.2 Agriculture, the backbone of the livelihood of our rural community has bounced back from the setback faced during the last two years due to unfavorable climatic conditions. The 2013 *Yala* season has given us a paddy harvest of 2 million MT, which is the highest in recent years. The production of maize, soya, black gram, green gram, big onion, potatoes, fruits and vegetables has also strengthened the food supply. The production of milk, dairy, poultry, meat, fish and eggs has also shown a similar improvement. Rice, maize and poultry production is generating surplus exports.

2.3 Increased paddy, maize and soya bean production has boosted rice processing, flour milling and vegetable oil production. The coconut production which, severely suffered due to the prolonged drought in the coconut triangle, is recovering with a favorable production trend. The production of tea, rubber, cinnamon and other export crops has also shown an improvement. Remunerative farm gate prices, the fertilizer subsidy, price stabilizing tax structure at the point of imports, provision of quality seeds and planting material and better storage and marketing facilities have helped our farmers to increase production through diversified crop cultivation.

2.4 The tourism industry has sustained its growth momentum with foreign tourist arrivals reaching 1.5 million and domestic tourism expanding to 3.5 million. Foreign earnings from the industry during this year is expected to be around US\$ 1.5 billion and investments have expanded well over US \$ 3 billion to create new capacity in this sector to be able to accommodate 2.5 million foreign tourists and 5 million domestic tourists by 2015. The use of local food, fabrics, furniture and equipment in the tourism industry must be expanded to further enhance the economic contribution of this industry.

2.5 The contribution of the country’s construction industry now accounts for 10 percent of GDP. This sector is growing at around 17 percent due to expanded investments in infrastructure as well as

higher private investments in urban property development, housing construction, tourism facilities, new factories and other logistics. This industry also contributes for the development of a wide range of engineering and technical fields as well as the building materials industry.

- 2.6 Honourable Speaker, we have offered many incentives to encourage imports competing industries such as cement, steel, tyres/rubber based products, agricultural/ tea industry machinery, equipment/ spare parts, power generation/transmission machinery and equipment, building material, furniture and boat/ship building. Similar encouragements have been extended to increase new investments in food processing, sugar and vegetable oil manufacturing, dairy and pharmaceutical products and to increase the production of renewable energy and coal power. Many of these activities have a potential to graduate to export markets in the medium term. The Customs tariffs that will come into force tonight will facilitate the expansion of such value creating and import competing industries. Quality standards will be enforced on imports and exports.
- 2.7 Export industries which were confronted by depressed global markets, have picked up showing a 2 percent growth. The apparel industry has shown a 6 percent growth and is expected to generate US\$ 4,000 million export earnings this year. Value added tea, rubber and cinnamon products adds around US\$ 3,000 million to export earnings showing how plantation crops could be translated into being high value manufactured exports. Software, gem and jewelry, handlooms and confectionary industries have gained momentum. Export earnings are expected to generate US\$. 10,000 million this year. The earnings from foreign employment are expected to be around US\$ 7,000 million.

3.0 Priorities of the External Trade Policy

- 3.1 Our endeavor is to encourage our products to reach large markets such as India, Japan, China, Australia, Saudi Arabia, United Arab Emirates, Qatar, Russia, South Africa and Brazil in addition to American and European markets, to create a new wave in export growth. We have shifted our education system to equip our youth with the required skills for these export industries and to improve their employment prospects with high income and productivity. We also incentivize our producers to develop skills of their employees so that the overall productivity of our workforce will thereby improve. The Government has arranged Euro 90 million low cost funds which is around Rs. 16 billion, to provide credit facilities at an interest rate not exceeding 8 percent for manufacturing and SME industries to modernize their factories with energy efficient technology to improve international competitiveness.
- 3.2 Our banking and financial institutions need to focus its lending towards production and value creation industries and move away from traditional import biasness in their operations. To further facilitate the export industry growth, online facilities are in place with regard to port and customs operations. Such facilities will be extended to cover imports as well. We have already declared free ports and bonding facilities to promote the value addition process and expand exports from our country. We have set our exports target to be US\$ 20 billion in 2020. Towards this end the improvement in productivity is as important as maintaining a flexible exchange rate regime.
- 3.3 Honourable Speaker, our export economy need not be confined to goods. This country has proved its potentials in exporting services such as business & knowledge processing services, professional services, ports & aviation services and banking & financial services. These services too have grown remarkably during the last 5 years and are expected to generate over US\$ 5 billion earnings. As skilled

and technical categories are encouraged towards foreign employment, earnings from such sources are projected to be around US\$ 10 billion in 2016.

- 3.4 Our country is now well integrated with international financial markets. The Government and banks have mobilized funds with 5 -10 year maturities through internationally traded bonds. This has improved availability of foreign funds required for the financing of both Government and private development expenditure. This has also provided a good opportunity for our exporters, high income earning overseas employees, commercial banks and local funds to put their investments and diversify their earnings sources.

4.0 State Enterprises

- 4.1 Honourable Speaker, our Government will not privatize state enterprises or state banks. I firmly believe that state enterprises should have their presence in the economy for there to be a fair balance between the public sector and the private sector to ensure economic and social progress in our country. Similarly, we have formulated laws to protect our land resources from outright transfers to foreign ownership. From this year, foreigners can have access to state and private land only through long-term lease arrangements. As infrastructure development has improved the value of all lands, it is necessary to implement a land lease tax structure to protect long-term value of lands. Hence a 15 percent upfront tax will be imposed in the event of lease of state or private lands to foreigners.

- 4.2 It is in this spirit that our Government has strengthened State Owned Business Enterprises. The Government budget through its public investment program has built up the asset base of Ceylon Electricity Board (CEB), National Water Supply & Drainage Board, Airport & Aviation Services and Sri Lanka Ports Authority to increase their long term earning capacity. I propose to convert all previous loans granted to them by the Treasury, to Government equity in order to further strengthen their balance sheets, while also enabling them to pay annual dividend to the Treasury.

- 4.3 The results from our policies are now visible. The power generation capacity of hydro power plants has improved considerably to 1,357 MW. This has also been blessed with the addition of 300 MW from the first coal power plant, thereby enabling the reduction of the use of expensive fuel based power to 294 MW. Renewable energy generation has increased up to 422 MW. Transmission losses of the CEB have reduced to 11 percent. This together with the cost recovery pricing strategy that has been put in place has helped the CEB to eliminate its last year's loss of Rs. 61 billion. CEB has also commenced the reduction of its liabilities to banks and the Ceylon Petroleum Corporation (CPC). The completion of two other coal power plants with a further 600 MW of new generation capacity by the end of this year, will further strengthen the balance sheet of the CEB.

- 4.4 Public investments in new water schemes in almost all provinces have made a stronger revenue base for the National Water Supply & Drainage Board. An investment of US\$ 300 million has also been made to reduce nonrevenue water to 20 percent by 2016. The completion of water supply schemes such as Ruhunapura, Aththanagalle, Kurunegala, Matale, Hambantota, Ampara, Anuradhapura, Jaffna, Batticaloa, Dambulla, Mahiyanganaya, HaliEla, Moneragala, Ratnapura to provide water connections to 1 million households by 2016 will make National Water Supply & Drainage Board stronger in its performance. I propose to establish a National Community Water Supply Department to regulate and develop community water supply schemes in order to ensure water quality standards and proper

maintenance of such projects. I propose to allocate Rs. 300 million for community water supply initiatives under this Department.

- 4.5 In terms of the ongoing capitalization to strengthen the two airlines, a further US\$ 150 million will be provided to *SriLankan* Airlines and US\$ 50 million to *Mihin Lanka* in 2014. The Treasury has made arrangements to take over the shares acquired in *SriLankan* by the state banks from the foreign shareholder so that state banks could be relieved of this burden. In order to strengthen the bus fleet of Sri Lanka Transport Board (SLTB) with a further 2,000 buses, Rs.1,000 million has been provided to SLTB in support of its capital investments. In addition, I propose to provide Rs. 500 million to bridge its revenue shortfall.
- 4.6 Ceylon Petroleum Corporation (CPC) has also made a significant turnaround. It has contained its losses and has also reduced its debt to banks. A Government Guarantee will be provided to the CPC to enable the raising of long term capital to restore its depleted pipeline network, storage facilities and the refinery. I am pleased to inform this august Assembly that, out of the 54 State Owned Business Enterprises, 47 have been turned around to be profitable entities. I value the contribution made by the Committee on Public Enterprises (COPA) through its Parliamentary oversight functions towards the improvement of governance and accountability of these enterprises.

5.0 State of the Budget

- 5.1 Honourable Speaker, I wish to remind our fiscal experts in the opposition that our fiscal policy framework has performed better than those followed by them prior to 2005. All post 1977 Governments prior to us operated higher budget deficits than the deficits that prevailed during our time. The Government during 2002-2004 removed pension rights of public servants and also imposed a recruitment freeze to the public sector. At that time, no alternative to privatization was considered and public investments were reduced, while keeping a deficit in excess of 8 percent and debt over 100 percent of GDP. This is the reality associated with our fiscal legacy.
- 5.2 Our Government, in fact got back some of the already privatized enterprises and certain others that failed after privatization to rescue them and put back in business. Gas Company, SriLankan, Sri Lanka Telecom, Pelwatte and Sevanagala Sugar companies, Colombo Hilton etc. are now government owned and many of them have already paid dividend income to the Treasury. Our budgetary policy enabled us to accommodate expenditure on high public investments, increased salaries and pension payments, *Samurdhi* benefits, fertilizer and seed subsidies. Budgetary allocations were made for the recruitment of teachers, doctors, nurses, other public sector employees and around 100,000 unemployed graduates to various positions in the public service.
- 5.3 Further, funds were also provided for the liberation of the country from terrorists, to demine a large area of 1,557 sqkm of land, resettle nearly 300,000 displaced persons and to develop livelihood avenues for them. The budgetary provisions were also used for the restoration of security, peace and development. Provisions were increased to implement the recommendations of Lessons Learnt and Reconciliation Commission and to popularize the usage of bilingual practices to promote national reconciliation. We have also been able to provide a Living Allowance to all parents of our three forces, disabled soldiers and those who unfairly lost their livelihood simply because they rose against the labour repression in 1980 July. The development expenditure for rural development is unprecedented.

5.4 Honourable Speaker, with all these, the budget deficit has been reduced to 5.8 percent of GDP this year. We target a budget deficit of 5.2 percent of GDP in 2014 and 4.5 percent in 2015. We are determined to bring down the budget deficit to 3.8 percent by 2016 and reduce our Debt /GDP ratio to 65 percent. That is the legacy we propose to leave behind for our future generations.

6.0 Government Revenue

6.1 The Government revenue this year is likely to be around Rs. 1,100 billion. Revenue from Income tax, VAT and NBT on domestic activities has increased by 14 percent and is on a buoyant growth path. Revenue from taxes imposed at the point of Customs remained sluggish due to the reduction in motor vehicle imports. Revenue from Excise taxes on liquor and cigarettes has moderated.

6.2 Honourable Speaker, we need to strengthen the Government revenue efforts in view of high commitments of the Government to provide a wide range of public services, welfare programs and public investments. The Government has introduced several measures to prevent leakages associated with tax on liquor, motor vehicle imports under concessionary duty schemes, under invoicing in the importation of used motor vehicles, steel, tyres and motor spare parts. Accordingly motor vehicle depreciation schedule applied at the point of import for the calculation of Customs based taxes will be revised to prevent under valuation.

6.3 It is proposed to extend the 2 percent NBT applicable to the banking sector to all banks and financial institutions to provide equal treatment to the banking and non-banking sectors and to expand the tax base. It is also proposed to fix the tax-free threshold applicable for VAT on supermarket scale retail trade at Rs. 250 million per quarter. In order to prevent manipulations on the computation of turnover through exempted items, I propose to fix a limit of 25 percent of the total turnover as exempted value from VAT in relation to such business. Telecommunication Levy will be fixed at 25 percent.

6.4 The Inland Revenue Department (IRD) is being computerized to make tax administration efficient and tax payment simple. A new Revenue Administration Management Information System (RAMIS) is being introduced to automate the processes of IRD and eventually link the IRD with Sri Lanka Customs, Department of the Registrar of Companies, Department of Motor Traffic, the Land Commissioner General's Department and the Ministry of Finance and Planning. The new system will enable the use of a Personal Identification Number to coordinate all transactions and will also to facilitate online tax payments etc.

7.0 The Current Expenditure

7.1 The Government current expenditure at around Rs. 1,200 billion remains higher than Government Revenue. The payments of salaries and allowances to public servants for the provision of education, health, rural development, administrative and extension services and national security total Rs. 390 billion. A further Rs. 125 billion is spent on pensions. Fertilizer subsidy, pharmaceutical drugs and a wide range of welfare expenditure takes another Rs. 100 billion. These expenditures must be secured. The total interest cost of Rs. 445 billion of which, domestic interest payments amount to Rs. 360 billion needs to be managed. However, the reduction of interest rates must be done gradually in order to protect both the savers as well as borrowers. Further, it is necessary to maintain development expenditure at the same scale of 6 percent of GDP to be able to expand economic activities.

7.2 The proper coordination of development programs in each sector in terms of economic priorities is necessary to maximize benefits from public expenditure when foreign loans and grants are utilized in addition to taxes and domestic borrowings. Therefore, I recommend that all grant-aided projects should also to be channeled only through the Consolidated Fund and the National Budget, like foreign loan funded projects having to follow the applicable planning procedure. To ensure consistency and to avoid duplicity in the implementation of the national development process, all expenditure of the private sector and Development Partners that will qualify for social responsibility related tax exemptions, will be implemented having aligned with national development programs. Since grants do not create a debt and hence has no bearing on the deficit, I propose to create additional provisions in the Budget, on account of such grant assistance.

8.0 Agrarian, Livelihood and Irrigation Development

8.1 Honourable Speaker, we consider that our rural centric development strategy must focus on agriculture for food security, traditional healthy living, bio diversity, a clean environment and a higher income to the rural people. Budget consultations with the farmer community representing all districts in the country, expressed confidence in the Government's agricultural policy and development strategy. They did not ask for any handouts and wanted the Government to concentrate on improving irrigation, providing quality drinking water and protection from wild animals. Therefore, the 2014-16 medium term Budget will give priority to these areas. Accordingly the 2014 Budget has allocated Rs. 1,700 million for downstream and livelihood development activities associated with the recently developed major reservoirs such as Weheragala, Rambaken Oya, Deduru Oya. I propose to increase the irrigation budget by a further Rs. 14,000 million for the early completion of Yan Oya, Uma Oya and Moragahakanda development programs, as they will help to improve irrigation and drinking water facilities to several difficult areas in the south and north and also enable power generation.

8.2 The farmers on their own suggested the need to reduce the usage of chemical fertilizer and pesticides to reduce their harmful effects on food, water quality, health, animals and the soil. Since such a shift would take some time, I propose to continue with the fertilizer subsidy scheme to provide all varieties of fertilizer at Rs. 350/per 50 kg bag for paddy cultivation during both the *Yala* and *Maha* seasons. A subsidized price of Rs. 1,250 per 50/kg bag will also be continued for all other crops. I propose to allocate a further Rs. 300 million in 2014 to encourage interested farmers and seeds farms, to produce quality planting and seed material and make them available in the market under a registered trademark recognized by the Agriculture Department. Purchasing centers of *Divi Neguma* agrarian services linked to *Lak Sathosa* will be set up so as to ensure that farmers will be able to secure guaranteed producer prices for potato, onion, dried chilies and grain varieties.

8.3 The Government has recruited qualified field level officers to the Agriculture Department and the Agrarian Development Department to strengthen extension services. Funds will be allocated to modernize all 300 Agrarian Development Centers to be able to meet farmer needs. I propose to implement a three-year rehabilitation program to restore abandoned paddy land and put them back to productive use by cultivating paddy, fruits, vegetables and also for floriculture, using organic fertilizer. I propose to allocate Rs. 2,300 million in 2014 for the rehabilitation of tanks, minor irrigation schemes and abandoned paddy lands. I propose to grant a monthly allowance of Rs. 300 to field level officers in agricultural extension services, veterinary services, irrigation and wildlife. I propose to provide motorcycles on five-year lease basis, to all such field level officers to improve their regular availability at field level and also to pave way for them to own an asset at the end of the lease term.

9.0 Partnership with the World Food Program

9.1 Honourable Speaker, the United Nations World Food Program has assisted our nation in the past to feed displaced people affected by terrorist attacks, the Tsunami and various other natural disasters. In appreciation of this assistance, our country is now in a position to provide food for the needy people who are faced with similar situations in other countries. Therefore, I propose to donate 50,000 MT of rice to the World Food Program of which 10,000 MT will be given to World Food Program office in Sri Lanka. The Government has requested that Sri Lanka be registered as a supplier nation to the World Food Program so that our farmers can grow rice to be supplied to external markets while also serving a worthy cause. I consider that the revival of agriculture is a reflection of being able to restore the traditional pride of our farmer community. Hence, I propose to setup a Revolving Fund of Rs. 300 Mn. under each District Secretary in the major grain producing districts, to streamline related production and marketing activities.

10.0 Smallholder Plantations

10.1 Honourable Speaker, smallholder plantations also play a significant role in our economy. The Government provides assistance to these cultivations by subsidizing planting material, replanting, new planting and fertilizer. In order to be able to get best results from the prevailing subsidies I propose to grant Rs. 5,000 per acre, once a year subsidy, to all tea smallholders to improve the conditions of their lands through water and soil conservation.

10.2 I also propose to support land preparation towards water retention, soil conservation and to increase the use of organic fertilizer for smallholder coconut cultivation. The prevailing high taxes on edible oil at the point of Customs will be maintained to increase long-term cultivation interests. It is proposed to restrict the importation of coconut oil and palm kernel and remove Nation Building Tax on coconut oil millers for 3 years to strengthen the coconut industry. A new incentive scheme will be implemented to encourage manufacturers of coir products for export in recognition of their value addition in foreign exchange. The CESS applicable on the export of tea, rubber, coconut, cinnamon and pepper in primary form will be further strengthened to channel such revenue to encourage value added exports made out of these primary products.

11.0 Large Scale Plantations

11.1 Large-scale plantations were privatized in 1992 on 50-year lease arrangements. However, some of these plantation companies are lagging behind. I propose to undertake a comprehensive assessment of the under performing plantation companies. Similarly, the best performing plantation companies that have increased their productivity, application of bio fertilizer, and engaged in worker welfare, brand promotion and investments to promote high value tea exports should be encouraged. Therefore each plantation company will be required to submit a report on their performance with development plans and targets, before March 31, 2014 to enable the Golden Shareholder being the Government to make appropriate decisions for the development of plantations under each company. I propose to implement a credit scheme with 8 year maturity and 6 percent interest to every company that has so far performed well, provided they -commit to replant an agreed extent, are committed to ensure social development of its plantation workers and increase the volume of its value added tea exports. I propose that banking institutions will earmark around Rs. 500 million for this development loan scheme in 2014. Provisions

of existing leases will be suitably amended incorporating new conditions necessary to ensure the development of this important sector.

12.0 Farmer Pension Scheme and Crop Insurance Scheme

12.1 I propose to implement a pension scheme to provide a minimum of Rs. 1,250 as a monthly pension for farmers over 63 years of age, from January 2014. I propose to use the proceeds of the *Govi Setha* lottery along with a capital contribution of Rs. 1,000 million from the Government to strengthen this contributory Pension Fund. The introduction of a contribution from farmers, who use the fertilizer subsidy scheme as announced in my last Budget, should provide a regular flow of funds in support of payment of compensation for crop failures. I propose to extend this to cover all smallholder farmers engaged in all crops so that they could also be compensated in the event of such causality. The Government is also in the process of securing Standby Funds from the World Bank to compensate losses due to adverse climatic conditions, without creating an unanticipated burden to the Budget.

13.0 Research and Food Technology

13.1 The Government has granted a wide range of incentives for research and development as well as a Research Allowance to university lecturers and other scientists. The Government and private sector partnership in setting up of a science park for the promotion of nanotechnology in manufacturing has confirmed how well the two sectors can work together with mutual trust in furthering advanced technology and research. We are encouraged with the research initiatives undertaken by both private and public sector institutions particularly in the field of agriculture. Research initiatives of Sabaragauwa, and Wayamba universities in food technology and livestock and their active involvement with such industries have produced results. Systems and procedures required to be followed by research institutes will be further simplified to encourage the active involvement of universities and for research institutions to be able to meet market demands. I propose to allocate Rs. 500 million for research lab facilities, equipment and research work by agricultural faculties in provincial universities at field level together with successful ventures in dairy, poultry, inland fisheries, animal husbandry and food technology.

14.0 Lead Export Industries

14.1 Sri Lanka's high value tea, apparel and handlooms and rubber products dominate country's exports, employment and value chain activities. Our Government's vision is to raise export earnings of these three industries to US\$ 10 billion by 2016. In the case of apparel exports, our vision is to position Sri Lanka among the top ten high quality apparel manufacturing countries in the world by 2020. Therefore, in support of further innovation in this industry, triple deductions will be provided for research and innovation carried out within businesses, while recognizing the cost of purchasing international intellectual property rights and the cost of operations relating to such rights, for tax deduction. Royalty income will be made tax free for a period of 7 years. Higher value added tea exporters securing a price in excess of US\$ 3 per kg over the average FOB price, who have established internationally reputed local brand names in packed form while using over 75 percent home grown tea, will be permitted to import any specialty tea free from restrictions to facilitate blending to meet market needs. High value tea and rubber product exports will be encouraged through increased cultivation of these crops and by maintaining a high level of CESS on primary commodity exports. Market access to Japan, India and

China will be explored for these commodities through Bilateral Trade Arrangements, in view of the high trade deficit Sri Lanka runs with the three countries.

15.0 Fisheries Industry

- 15.1 Honourable Speaker, the development of fisheries harbors, anchorages, landing centers, cold rooms and market facilities have expanded the production capacity of the fisheries industry. During the last five years, 2,524 multi day vessels, 3,743 one day vessels and 4,743 normal vessels have been added to the industry. The fish harvest has doubled in the last 5 years and has reached 500,000MT. Production of inland fishery has contributed to 20 percent of the total fish production.
- 15.2 The production of dried fish and sprats, maldive fish, canned fish and fish food has increased, and has resulted in supporting livelihood activities of the people engaged in this industry, while also reducing related imports from 80,000MT in 2010 to 70,000MT by 2013. I propose to maintain higher Customs based taxes on related imports to promote local production of these activities. The incentives provided to small and medium enterprises engaged in the exports of fish food and ornamental fish will be further expanded.
- 15.3 Priority will be given for the rehabilitation of existing harbor facilities, the early completion of Silawathura, Gurunagar, Gandara and Kalametiya fishery harbours, the development of fishery harbours and anchorages at Wennappuwa, Chilaw, Kapparahota, Dodandoowa, Hikkaduwa and Negombo lagoon and also to further increase the number of fishing boats during 2014. I propose to allocate Rs. 1,000 million for these development activities. I propose to maintain a high tax structure on fishing boats at the point of import, to promote the local boat manufacturing industry.

16.0 Dairy, Livestock and Poultry Industries

- 16.1 Honourable Speaker, in our effort to reach self-sufficiency in milk, the local milk production has increased and supplies 40 percent of local consumption requirements. The importation of 4,500 high yielding cows has contributed to improve the production of Government dairy farms. Private sector dairy farms as well as small and medium enterprises have substantially increased their investments in this sector. Further, the *Divi Neguma* initiative encourages backyard dairy farm activities. I propose to allocate funds to import a further 20,000 high quality cows to promote small and medium dairy farms in order to increase the annual average yield in excess of 1,500 liters of milk per cow. A special loan scheme at an interest rate of 8 percent will be implemented in support of SMEs in the dairy sector to promote dairy farms, collection centers and equipment, the development of animal feed etc. A high CESS will be maintained on the importation of butter, yoghurt and dairy products, to further support the dairy industry.
- 16.2 Poultry production in 2013 has exceeded 153,000MT eliminating the deficit production that prevailed in 2009. *Divi Neguma* program has contributed to increase the informal market contribution to 34 percent. I propose to introduce a pricing formula based on the cost structure in place of a price control on poultry to regulate pricing and to safeguard both the consumer as well as the producer. I also propose to introduce a grant scheme to neutralize impact on production costs due to taxes payable on inputs to encourage exports. As this industry has witnessed a rapid expansion, I propose to allocate Rs. 200 million to strengthen related veterinary services with modern facilities, recruitment of veterinarians and to grant a monthly allowance of Rs.7,500 for veterinarians.

17.0 *Divi Neguma - Gama Neguma*

17.1 Honourable Speaker, *Divi Neguma* initiative has nurtured several backyard economic activities among households since it was first launched in 2010 with the objective of setting up one million backyard economies. It has now entered the 5th round. In this round, *Divi Neguma* intends to develop 125,000 model home gardens, which will encourage the production of seed and planting material suitable to targeted areas based on climatic conditions. I propose to grant Rs. 10,000 each to the 5 best *Divi Neguma* backyard economies/ home gardens in each *Grama Niladari* division to incentivize those who participate in this novel concept of micro enterprise development with the participation of the entire family. I request all banks and financial institutions to grant at least 500 working capital loans of Rs. 25,000 at an interest rate of 6 percent without requiring any collateral to such winners, towards developing greenhouse farms, poultry/ livestock /fish farms or handloom/small industries so that *Divi Neguma* families could emerge as successful entrepreneurs.

17.2 Villages situated in difficult geographic locations are unable to fully benefit from mainstream development activities primarily due to lack of proper transportation. In order to resolve this problem, the Government recently implemented a program to construct bridges in such areas to establish connectivity for transportation. I propose to accelerate this initiative by completing the construction of 1,000 such bridges in 2014. This is expected to provide access for the benefit of 500,000 families with access to community water, education, health and livelihood activities expanding development activities undertaken through the *Gama Neguma* initiative for which I propose to allocate Rs. 4,500 million. I propose to allocate Rs. 300 million to provide small buses to these areas to improve transportation. I also propose to grant an allowance of Rs. 15,000 to District Secretaries, Rs. 5,000 to Divisional Secretaries and Rs. 3,000 to Planning Directors and Chief Accountants attached to District Secretariats to incentivize them to coordinate rural centric work and to promote better expenditure management and supervision at district level.

18.0 Child Nutrition

18.1 Honourable Speaker, special initiatives must be undertaken to reduce malnutrition in pregnant and lactating women and in children. I propose to engage family health services to provide greater attention towards promoting breastfeeding, use of nutritious food for children while also ensuring them better health care. *Divi Neguma/Samurdi* programs will be used to popularize the consumption of homegrown vegetables, milk and eggs towards promoting better nutrition. I propose to allocate the required funds and employ nutrition specialists in each district, teach the importance of proper nutrition to school children, and carry out community level mobile clinics to promote balanced nutrition. I also propose to impose regulatory restrictions relating to food related advertisement by permitting to advertise only foodstuff with reasonable nutritional values. I propose to work with the World Food Program, UNICEF and Food and Agriculture Organization to collectively implement a nationwide accelerated nutrition initiative to reduce malnutrition and get maximum productivity from annual expenditure of around Rs. 7,000 million incurred by the Government on various programs to increase nutritional levels.

19.0 Women Enterprises

19.1 A large number of women are engaged in successful micro enterprises involving a wide range of high quality products while generating a good source of family income and creating employment opportunities for our people. These entrepreneurs explained to us that their business environment is

constraint by a variety of payments imposed on land and buildings, inadequate working capital, complicated title related levies, insistence of traditional securities for small loans, administrative rigidities and lack of sensitivity to their businesses by financial institutions and Government service providers.

- 19.2 I propose to implement a Women Micro Enterprise Credit Guarantee Scheme against which Regional Development Banks and SME Banking Units of Commercial Banks will provide working capital loans up to Rs. 250,000 without requiring security and interest. Age limit to be eligible for such loans will be extended up to 68 years. Beyond that age, a designated family member could be nominated to qualify to obtain further facilities. I propose to dedicate 2014 – 2015 for Women Enterprise Development, to be facilitated by Regional Development Banks.

20.0 Small Businesses and the Economy of the Self-employed

- 20.1 Honourable Speaker, small scale shops, tea shops, repairing stations, restaurants, tailor shops, saloons, small groceries in commercial centers, small trade outlets on pavements and weekly fairs etc. provide self-employment opportunities to a substantial number of people. A large number of consumers also benefit from these widespread service providers. I propose to issue *Divi Neguma* entitlement cards to small entrepreneurs subject to a payment of Rs. 500 to exempt them from having to pay multiple payments to local authorities. I also propose to reduce the annual lease rental of land leased by state agencies to such cardholders to Rs. 1,000 if the extent is less than half an acre. This facility will also be extended to *Samurdhi* beneficiaries, who are already eligible for several other benefits. I propose to simplify the provisions in long term leases given by state agencies to small entrepreneurs for commercial purposes and in the case of any such lease that has already gone on for over 10 years, the lessee will be given the option to convert the arrangement to a 50 year long term lease. I propose that 50 percent of investment savings of *Divi Neguma* and *Samurdhi* beneficiaries and small time traders in banks, be used to give small loans to them at a low rate of interest, on the basis of a group security to be given by such borrowers. I propose to exempt small traders engaged in businesses with a monthly turnover less than Rs. 50,000 from all levies imposed by local authorities. Arrangements will be made to provide suitable space to payment hawkers and small traders involved in mobile businesses along new roads, in trade centers and weekly fairs in metropolitan areas.

- 20.2 I propose to set up a Revolving Fund to provide credit against confirmed supply orders from reputed buyers to promote small craftsmen engaged in the manufacturing of unique artifacts, home décor, designer fabrics, embroidery work, pottery and production of items using precious metals. I propose to restrict the importation of household and office furniture and remove prevailing restrictions on the transportation of furniture within the country to encourage the local furniture industry. Hotel and property developers are encouraged to use locally manufactured furniture to the maximum extent possible.

21.0 Social Services

- 21.1 The government has expanded welfare support for the elderly, the differently abled and low-income families under various initiatives. In the 2013 Budget, I granted a Rs. 1,000 monthly allowance to the elderly. Almost 221,000 elderly people have benefited from this scheme. A Rs. 3,000 living allowance was extended to differently abled people. Skills development training is given to them through vocational training to empower them to be engaged in livelihood activities. I propose to provide Rs. 100

million to modernize these vocational training schools located all over the country to improve vocational training facilities, including the provision of new equipment and the introduction of new courses.

22.0 Child Abuse and Violence Against Women

22.1 Honourable Speaker, it is disappointing to note that our value-based society nurtured with religion, culture and traditions has to witness child abuse and violence against women. Sri Lanka Women's Bureau, Child Protection Authority and Sri Lanka Police have expanded many initiatives to prevent these incidents. I propose to allocate Rs.300 million to engage field level officers at Divisional Secretariats to facilitate to prevent such incidents. It is proposed to set up more safe-houses for the benefit of such victims and expand the units set up in police stations to be able to better deal with incidents of child abuse or violence against women. It is important to expand awareness programs in schools through parents - teachers societies and by establishing a network with the involvement of *Samurdhi* societies and community based organizations to address these concerns and also to promote volunteers to be engaged in family counseling.

23.0 Empowering Pradeshiya Sabhas

23.1 Community infrastructure facilities associated with *Sathipolas*, waste management, drainage systems, access roads, children's parks, public sanitation facilities etc. have not been improved as *Pradeshiya Sabhas* have not generated adequate income to be able to purchase basic machinery and equipment required to upgrade and maintain them. Hence, I propose to provide capital equipment such as tractors, small construction tools and machinery to every *Pradeshiya Sabha* in 2014. I also propose to provide Rs. 1 million per month to every *Pradeshiya Sabha* to supplement their working capital so that community infrastructure facilities could be maintained and rehabilitated in an orderly manner.

24.0 Wildlife Protection and Conservation

24.1 During Budget consultations, it was revealed that the cultivation of animal fodder in reserved areas and the rehabilitation of water tanks and such other facilities are essential to prevent animals from entering villages. I propose an allocation of Rs. 10 million to each relevant Divisional Secretariat to develop Wildlife Conservation and Community Protection Schemes taking into consideration the specific needs of each such Divisional Secretariat area. I propose to allocate Rs. 200 million to the Wildlife Department to purchase required utility vehicles and equipment. I also propose to extend the insurance scheme introduced in the 2013 Budget to compensate losses to human life and property to cover crop damages as well, from 2014.

25.0 Health Services

25.1 Honourable Speaker, as our people are now confronted with new challenges with the increase of non-communicable diseases such as cancer, stroke, heart attacks, kidney failure etc. we need to make a concerted effort to take control of the situation. Work is already in progress to transform Maharagama Cancer Hospital to be able to manage an increased number of indoor and outdoor patients. I also propose to set up radioiodine treatment and radiotherapy units at Jaffna, Kandy, Kurunegala, Badulla, Anuradhapura and Galle hospitals to reduce the waiting list of patients for such treatment at the Maharagama Cancer Hospital from three and a half years to less than six months. These modern

centers will have facilities for preventive examinations and early detection as well as cost effective treatment using modern machinery and equipment. National Stroke Center of Sri Lanka will be set up to manage stroke related medicare. Facilities to provide medicare to kidney patients availing sufficient doctors and medicine will also be provided on an accelerated basis. Preventive care against kidney diseases will also be taken through the provision of safe drinking water to all on an urgent basis, through awareness champagnes to prompt farmers to move away from the use of chemical fertilizer and pesticides and by promoting the consumption of unprocessed food more favourable for consumption. I propose to allocate Rs. 900 million to provide Reverse Osmosis (RO) water purification plants to villages in the North Central Province in which access to quality pipe borne water is not available in order to prevent waterborne diseases.

25.2 It has been planned to provide an additional allocation of Rs. 2,000 million in 2014 for the development of cost effective infrastructure facilities to deal with non-communicable diseases during the 2014-16 Medium Term Budget Framework. I propose to allocate Rs. 1,000 million for the accelerated modernization of the two national children's hospitals as centers of excellence capable of providing the next 10 year pediatric care needs of our country and the related medical research facilities. Colombo, Kalubovila and Ragama hospitals cater daily to around 10,000 outdoor patients and 7,500 indoor patients. Since a large number of patients from Colombo and the surrounding districts rely on the services of these hospitals, the facilities in them should be expanded and modernized. I am encouraged that the People's Republic of China has extended an outright grant to develop the OPD treatment and ancillary facilities of these 3 hospitals at a cost of around US\$ 180 million. I propose to provide additional provisions in 2014 and 2015 to accommodate this grant aid for the development of health services in the country. I propose to increase the annual Uniform Allowance for nurses, family health workers and other staff by a further Rs. 500 - 1500 and the On-call Duty Allowance for paramedical staff by Rs. 150 per month to encourage health sector employees. I also propose to increase the Risk Allowance by Rs. 50 - 100 for those in eligible risk categories. When even the richest nations which charge for healthcare are struggling to finance such services to their people, we all should be proud for not only providing pharmaceutical drugs but also indoor and outdoor health care service throughout the country, completely free of charge.

26.0 Arts and Culture

26.1 Honourable Speaker, with the widespread development witnessed across regions it is necessary that the Government expands modern infrastructure facilities for performing arts and culture currently confined to Colombo. In this context, I have secured a grant aid of around Rs. 3,000 million to set up two performing arts and cultural centers in Kandy and Anuradhapura within the 2014-16 medium term budget framework. Further, steps have been taken to modernize cultural centers in Jaffna, Trincomalee and Galle, apart from the completion of the renovation work of Elphinstone and the John De Silva Memorial Hall. The modernization of the Lionel Wendt Art Center, *Lumbini* Theater, and Galle Municipal Council Theatre will also be commenced in 2014. I propose to channel budgetary provisions to implement special projects to document our heritage, culture and traditions and to popularize them among our new generation.

27.0 Holiday Bungalows for Artists

27.1 I propose to allocate land blocks and provide seed capital to build 5 holiday bungalows exclusively designed for artists. I request artists to top-up the Government contribution through a fund raising

campaign to make them enthusiastic partners of this initiative and rally round Sri Lankan tourism to project country's performing arts and the film industry. The performance of our multi talented artists at the opening ceremony of the Commonwealth Heads of Government Meeting amply demonstrated their capacity to take the message of peace and reconciliation through rich performing arts of our country.

28.0 Education

28.1 Honourable Speaker, the Budget estimates placed before this August Assembly have provided Rs. 125 billion for general education. Rs. 80 billion is spent on teacher salaries and Rs. 10 billion to provide textbooks, uniforms, mid day meals and transport subsidies. The creation of a child-friendly school system, developing *Mahindodaya* laboratories, teacher training, quality improvements of text books and teaching material and the introduction of technology streams to advanced classes are given priority in the public investment program in the medium term. The development of 6,000 schools including 1,000 *Mahindodaya* laboratories and the rehabilitation of rural schools will be completed in 2014. An allocation of Rs. 1,000 million will be provided to upgrade sanitation and other facilities in rural schools. A further Rs. 750 million will be allocated to develop Maharagama Teacher Training College as a well-equipped training center on all subjects, while facilities in all other teacher training colleges in the country will also be upgraded. Furthermore, steps will be taken to implement the recommendations of the committee appointed to resolve the remaining problems of Sri Lanka Teachers Service, Sri Lanka Principals Service, Sri Lanka Educationists Service and Sri Lanka Education Administrative Service and to improve the quality of education.

29.0 Pirivena Education

29.1 The 2014-16 Medium Term *Pirivena* Education Strategy aims at raising the student population associated with *Pirivena* education by 25 percent by 2016. Towards achieving this target, the teacher participation in *Pirivena* education also needs to be increased by 25 percent. I propose to provide Rs. 500,000 to each *Pirivena* to improve classrooms, libraries, computer labs, furniture and equipment in order to upgrade *Pirivena* education facilities. I also propose to extend facilities such as distress loans, property loans, the *Agrahara* Insurance Scheme benefits and railway warrants to *Pirivena* teachers. Similarly, I propose to increase the Student Allowance for monks to Rs. 15 per day and other students to Rs. 5 per day.

30.0 Skills Education

30.1 Honourable Speaker, our country needs to implement a fast-track skills development program to meet market demands by gearing our youth to be able to secure high paid jobs and also to improve productivity in industries and services in the next decade. The Government has therefore secured around US\$ 350 million budget support from the World Bank and the Asian Development Bank to supplement Government expenditure on skills education. Accordingly, expenditure on skills development and youth affairs has been increased to Rs. 12,105 million in 2014 to be shared with external funding facilities to accelerate skills education in the country in the next 2 years. A diploma awarding Technical College that is affiliated to the Moratuwa University will be setup in Homagama.

30.2 The 2014-2020 Vocational Education Strategy consists of rehabilitation and construction of Technical Colleges and Vocational Training Centers, development of training material and the provision of equipment, staff training and professional development. These programs will target extending

technical competencies in agriculture, IT, accounting, irrigation, construction, ship and boat building, ocean technology, tourism, beauty care and high tech competencies required for overseas skilled employment. I propose to increase the allowances given to lecturers and students to incentivize skills education and increase Diploma Holders with National Vocational Qualification (NVQ) Standards. The aim of skills education is to develop 50,000 diploma holders and 50,000 certificate holders in different skills with NVQ Standards by 2015.

31.0 University Housing, Townships & Facilities for Advanced Studies and Research

31.1 Honourable Speaker, our universities have implemented a program to transform our university township environment to facilitate to upgrade the university education of our country. We have given high priority to resolve accommodation constraints of our university students. We have implemented a hostel construction program in 15 universities for 15,000 students at a cost of Rs. 15,000 million. This will completely solve the accommodation problems of first year and final year university students. Incentives will be provided to those who provide further accommodation facilities from the surrounding university township environment. I propose to increase the Academic Allowance of university lecturers by 5 percent of the basic salary in accordance with our commitment to provide attractive remuneration over the medium term.

31.2 The medium term development programs include the establishment of an Engineering and Technology Faculty in the Sri Jayawardenapura University, Information Technology Center in the Kelaniya University, an Advanced Medical Faculty in the Peradeniya University and an Electronics, Petroleum and Aeronautical Engineering Faculty in the Moratuwa University. The capacity expansion of management, food technology, veterinary science and agriculture faculties of Colombo, Wayamba, Jaffna, Rajarata, Eastern, Uvawellassa, Sabaragamuwa and Ruhuna universities and the expansion of advanced degrees in indigenous medicine and Ayurvedic teaching hospitals are also recognized as priorities of the medium term. Along with these, the planned improvements in the quality of higher education are expected to require an estimated additional sum of Rs. 9,000 million over the medium term. I propose to top up the 2014 allocations by 2,000 million to accelerate these initiatives.

32.0 Sri Lanka as a Regional Medical Hub

32.1 Honourable Speaker, we have increased the number of medical specialists to 1,500 through an increase in the number of doctors and medical researchers with postgraduate qualifications. Our strategy is to double the number, so that every 100,000 of the population will have 11 Specialist Doctors. This will provide 15,000 more doctors graduating from medical schools, with postgraduate opportunities. It will also enable a higher number of specialist doctors to be deployed to District Hospitals and to be attached to private hospitals.

32.2 The Ministry of Health has formulated a National Drug Policy Act for the regulation of drug use, clinical trials and research activities in specialized hospitals. Time has also come to recognize the urgent need for a proper Regulatory setup on food quality. Parallel to these developments, we propose to expand the subject areas of the Postgraduate Institute of Medicine and to double the intake for postgraduate studies in medicine. I propose an allocation of Rs. 2,500 million to build a state-of-the-art Post Graduate Institute of Medicine over the next 3 years. This new Post Graduate Institute will connect neighbouring teaching hospitals, while also extending modern facilities required for their postgraduate research and advanced studies. I also proposed to setup a Centre of Medical Excellence to continue to obtain the services of

specialized medical professionals after the completion of their service term and to broaden specialized medical services in our country.

- 32.3 I propose to give priority to increase medical specialists capable of treating kidney ailments, malnutrition and similar contemporary challenges in our society. The Government will seek international research and technology collaboration for our universities focused towards improving the quality of drinking water, particularly in rural areas. I also propose to grant a monthly Intern Allowance of Rs.750 for medical interns engaged in hospital services and a Research Allowance for medical professionals to encourage them to engage in internationally recognized research and professional development initiatives.

33.0 Professional Services Hub

- 33.1 Honourable Speaker, our country has made unprecedented progress in the field of accountancy, commerce, finance, law, IT, engineering and architecture. The number of people engaged in these professions has increased considerably. Therefore, I propose to support internationally reputed professional institutes to expand such professional and technical programs at provincial level to increase the number of qualified professionals and technical assistants in our country. I encourage the formation of corporate entities to be engaged in Business Process Outsourcing in human resource management, finance and accounting, law and procurement etc. and deliver high quality services to global customers. A 5-year half tax holiday will be given to promote the formation of such new partnerships or firms to be engaged in international services. Personal income taxation of professionals will be further simplified to ensure that income derived by highly demanded professionals will not be taxed excessively. I also propose to give a 10 percent discount on the total tax payable on the importation of a motor vehicle by any such professional who earns foreign exchange in excess of US\$ 100,000 per year for a consecutive period of 3 years to popularize the promotion of such services in Sri Lanka.

34.0 IT Industry Development

- 34.1 Honourable Speaker, the Government efforts to promote IT as a major industry in Sri Lanka during last 8 years has helped to raise its foreign earnings to about US\$ 600 million, create around 70,000 well paid employment opportunities and the country is rapidly shifting towards the use of internet in day-to-day life. The improvement achieved by Sri Lanka in the Global Competitive Index ranking, as the 68th out of 144 countries is a reflection of these developments. Our vision over the next three years is to lift Sri Lanka into the category of 'Top 30 Countries' and to double the foreign earnings as well as employment opportunities in this industry.
- 34.2 The Government has attached significant importance for reforms in the entire education system, to increase science and technology subjects in the main stream of education and to enhance labour force capabilities through skills development under tertiary education, to be able to meet the demands of the ICT industry. It is proposed to develop an ICT Zone at Hambantota as the emerging ICT Hub of South Asia, capitalizing on the newly built infrastructure such as the Port, Airport, expressway and the railway network, by promoting investments in this zone.
- 34.3 In order to further support this industry, various anomalies in taxation pertaining to IT related items such as multifunctional printers will be corrected. The new Revenue Protection Order provides a better

classification for IT and IT related products under a single tariff band with reduced rates of import duty. I also propose to remove the prevailing anomalies relating to VAT on hardware and software and further simplify taxation. I propose to allocate Rs. 1,000 million to implement a 3 year program inclusive of the expansion of *Nanasala* centers with reading facilities in the villages, in line with the new IT policy strategy of the Government. The transformation of public institutions by introducing web based facilities to enable the provision of public services such as issuance of construction permits, land and property registration, investment approvals etc. on line, is a major component of this reform agenda.

35.0 Shipping Economy

35.1 Honourable Speaker, we are in the process of procuring several ships to expand Sri Lanka Shipping Corporation and to improve shipping related capabilities of the country. I also propose to expand maritime education to ensure professional and skills development required to improve the shipping industry. As such, tax credit will be given to all local ship operators as well as shipping agents for foreign ships who engage in training and professional development activities in the shipping industry. To boost related activities, I propose that services related to the shipping industry will be taxed at 12 percent on par with the tax rate applicable to export income earnings. A separate allocation will be provided to set up a state-of-the-art Ocean University to award degrees etc. in a range of subjects and skills associated with maritime education. In order to promote the shipping economy in a more structured manner, I also propose to set up a fully pledge Merchant Shipping Authority by introducing timely amendments to the Merchant Shipping Act. In order to prevent monopoly pricing in the shipping trade, no shipping line will be permitted to levy terminal handling and other charges in addition to freight and specified international charges for container cargo. Relevant prohibition will be made effective through amendments to the Finance Act, effective from January 2014.

36.0 Aviation Connectivity

36.1 *SriLankan Airlines* and *Mihin Lanka* are implementing a network expansion strategy to connect Sri Lanka as a transit hub to Europe, Africa, Middle East and the Asia Pacific region. The two international airports provide critical infrastructure and strategic locational advantage. Aircraft overhauling and maintenance, aviation fuel supply, ground handling, air cargo and catering facilities are being expanded at both airports to transform them to be safest airports capable of providing aviation facilities in line with international aviation requirements. I propose to set up to a new corporate body to provide aviation related activities such as airline catering, supply of aviation fuel, cargo and ground handling in a coordinated manner while also being competitive. I propose that aviation services and related activities will be treated as exports for VAT and be exempted from NBT to encourage backward integration of the aviation industry with the local economy. World reputed international Airlines are being encouraged to complement network operations of the national carrier. The Aviation Academy is being developed as a state-of-the-art training center to provide professional education in aviation.

37.0 A National Science Center

37.1 Honourable Speaker, it has been recognized that the establishment of a National Science Center is essential to promote the scientific knowledge required for the advancement of our society. The setting up of this center will enable Sri Lanka Advance Science Organization, education ministries, universities and the National Science Foundation to enhance science and technology knowhow among our people

and also to motivate our youth to pursue studies in related streams. I propose to seek foreign assistance for this venture since it should be done according to international standards.

38.0 Incentives for Housings for Professionals

38.1 Housing needs of professional categories such as medical consultants, legal counsels, engineers, architects, accountants, business executives, primarily engaged in urban services have increased and time has come to encourage them to get together in small groups and develop housing schemes that suit their needs. Hence, I propose to recognize loan repayments up to Rs. 50,000 per month for such house building arrangements to be treated as a special qualifying payment in the payment of tax. Profit tax of banking and financial institutions with regard to related financial facilities will be given a half tax holiday. Stamp duty on the purchase of land for such housing complexes will be reduced by 25 percent. I propose to keep these incentives for a period of 7 years.

39.0 Greater Colombo Flood Protection Initiative

39.1 Honourable Speaker, frequent floods, run down water lands and canal system, effects of increased pollution and unplanned building of residential and business units remain major barriers to be able to tap the full potential of Greater Colombo for economic development. The Government has already mobilized the support of several Development Partners to support the initiative to address these concerns. Under this program, development of drainage systems, rehabilitation of the canal system, improving the environment of Colombo and the surrounding residential areas are being done in an accelerated manner. The development of *Weras Ganga*, *Kalu Oya* and the Hamilton Canal has been undertaken for the promotion of bio diversity, creation of urban forestry, bird sanctuaries, environmental parks, community and children's parks, self-employment market centers for small traders, vehicle parks etc. that form critical elements of this development initiative. I propose to raise the allocated funds to the Land Reclamation and Development Corporation within the 2014-16 Medium Term Budget Framework to ensure that Greater Colombo area will be free from floods and environmental hazards.

40.0 Township Development Program

40.1 Urban development initiatives of the Government have gathered a new momentum. These public investment initiatives which are funded with domestic finances along with foreign finances from the World Bank will be extended to cover greater townships of Kanday, Badulla, Kurunegalla, Galle, Ratnapura, Anuradhapura, Jaffna, and Trincomalee. The Southern Expressway and the proposed Northern, Kandy and Ratnapura Expressways that are due to commence construction next year will connect neighboring semi townships, to universities, teaching hospitals, tourist zones, investment zones, ports and airports, while also providing a wide range of services.

40.2 Honorable Speaker, at present nearly 50,000 families live in the Colombo City area without proper housing and many of them live in congested and unhealthy living environments. In particular, children, women, elderly and the differently abled persons in these shelters do not have appropriate living conditions. Yet, these people form the urban workforce engaged in small businesses and they make a valuable contribution to the economy. I propose to implement a two-pronged strategy to solve their urban related problems within the next three years. First, is to accelerate the 2012 Budget initiative to upgrade and modernize existing housing schemes established several years ago in different parts of

Colombo and the suburbs. The Maligawattta and Zoysapura housing schemes have been already modernized satisfactorily. I propose to raise the Budget allocation of Rs. 1,200 million earmarked for 2014 to Rs. 2,000 million to make a similar transformation in all other housing schemes. I also propose to provide a further Rs.500 million to double the housing construction program undertaken by the National Housing Development Authority for low income people.

40.3 The second is to construct 50,000 new housing units in 15 locations to house all families currently living in temporary shelters. In the development of these townships, it will be guaranteed that nobody will be moved out of Colombo in the resettlement process. The implementation of this strategy will be undertaken to be executed on an integrated approach while harmonizing with the ongoing development initiatives to improve water supply and sanitation, city modernization initiative, Greater Colombo environment conservation initiative, North Colombo - Negombo Hamilton Canal transformation initiative, Port City and Dehiwala Mt- Lavinia coast development initiative. These overall Greater Colombo development initiatives will promote private investments in property development, hotels and restaurant facilities, market places, transport, finance and logistic industries and new businesses for SMEs. As this initiative is expected to be implemented through local construction companies, those involved in the construction industry related building material manufacturing and service activities will have a grater opportunity to expand their investments over the next three years and will also result in boosting income and employment opportunities for our people.

41.0 Plantation Housing

41.1 Honourable Speaker, since 2005, our government has not let the plantation workers to be a lagging community. Due to measures so far taken, all their basic health and education indicators have improved. The maternal mortality rate has declined to 2 per thousand births and the no-schooling rate has dropped to 8.8 percent. The immunization rate of children is almost 100 percent. Upgrading their housing and sanitation facilities will improve their living conditions considerably. Hence, I propose to construct housing complexes with 50,000 housing units to replace poor quality housing available in the plantation sector. The construction of these houses with sanitation and other utilities will require considerable engineering supervision. I propose, to float a US\$ 750 million long-term international bond for the construction of urban and estate housing complexes through the Urban Development Authority which will be backed by a Government Guarantee, along with a further US\$ 750 million for the Government to finance counterpart funds required for various development projects.

42.0 The 1,000 Village Connectivity Program

42.1 Honourable Speaker, road development initiative of this Government has connected all major townships, airports, ports and our economy as a whole, with the rest of the world. It is necessary that our road network program now expand to fill the remaining gaps in connecting all our villages to create one connected nation. Our people can benefit from the widespread network of schools, hospitals and public and private service stations only if proper access is established through transportation. Therefore, a US\$ 1,200 million credit facility has been mobilized from the Asian Development Bank to connect the national road network to provincial and *Pradesheeya Sabha* roads including many feeder roads, that will provide accessibility to 1,000 most populace villages commencing 2014. The Road Development Authority will ensure all such roads will become connected feeder roads that will provide improved access to at least 200,000 households.

43.0 Strengthening Finance Companies and Banks

43.1 Honourable Speaker, The performance of the Central Bank of Sri Lanka in managing external reserves, various funds, the money supply and the supervision of banking and financial institutions in recent years, has been exemplary. Considering Central Bank's responsibilities and the recent trends in the economy, I propose to increase its capital to Rs.50 billion. At present our country has 58 Finance Companies, out of which only 20 have an asset base over Rs. 20 billion. Some of them are owned by banks. Therefore, I propose that any finance company which is a subsidiary company owned by a main company, be absorbed by the main company to consolidate their operations. I also propose that banks, which have finance companies to consolidate their operations by acquiring the finance companies within the group to further strengthen the banks. In support of this initiative, I propose to give qualifying payment status for acquisition expenditure of banks or companies, if they have acquired any finance company. As a part of financial sector strengthening, I propose to encourage development banks to merge and I also propose to improve the Credit Information Bureau to facilitate both banks and customers.

44.0 Debt and Equity Market

44.1 I introduced several incentives in the 2013 Budget to promote the debt and equity market and market facilitators in our country. Following this, the market has consolidated and steadily expanded. Market capitalization too has increased to nearly 30 percent of GDP. Many companies have commenced listing of their shares and debt and are gaining momentum. As an incentive to business enterprises engaged in banking, finance, insurance and manufacturing activities liable to high profit tax at 28 percent, I propose to offer a half tax holiday for a period of 3 years, to any such Company that lists its shares in the Colombo Stock Exchange in 2014.

45.0 Legal and Judicial Reforms

45.1 Honourable Speaker, our country has a sound constitutional and legal framework nurtured by our own laws and practices as well as by laws etc. of advanced countries. If such legal framework is to operate efficiently in the interest of economic and social advancements, the adoption of technology and other modern facilities should be suitably done in the management of court proceedings, record keeping etc. It is equally important to develop professional standards and career prospects of judicial officers. Along with these measures, the strengthening of the Attorney General's Department, Legal Draftsman's Department, Legal Aid Commission, Human Rights Commission, Legal Divisions in Government agencies, Legal Aid Commission, Human Rights Commission and the Commission to Investigate Allegations of Bribery or Corruption is also important to facilitate the orderly functioning of the administrative system. It is necessary to promote confidence and respect to law and order as well as to the related institutions.

45.2 In this background, I propose to implement a 5 year legal and judicial reform initiative to comprehensively modernize the sector. We intend to update procedural aspects of Courts to reduce law delays and also to minimize transaction costs to the people. Assistance has been requested from the World Bank for the implementation of a reform initiative including the support for the development of an International Arbitration Center in Colombo, to set up dedicated Courts to deal with high value tax and financial matters to facilitate expeditious resolution of business disputes and ensure that there will be no denial of revenue to the Government due to law delays. As a step towards improving

professional attraction to the judicial service, I propose to increase the Personal Allowance of Judges by a further 8 percent.

46.0 Towards Simplification of Governance

46.1 A major findings from the *Deyata Kirula* mobile services conducted at field level is that the prevailing regulations connected with the State Lands Ordinance, Agrarian Development Act, Fauna and Flora Protection Ordinance, Consumer Protection Authority Act, Motor Traffic Act etc. have caused considerable difficulties with regard to ordinary transactions undertaken by the people. These complex and sometimes contradicting legal and regulatory provisions have often affected the efficient performance of public servants. I propose to appoint a Cabinet Sub Committee to simplify these regulations primarily to make the day-to-day transactions conducted by people more efficient. The new Financial Regulations to streamline financial discipline of the Government will also be issued shortly.

47.0 Strengthening the Police Service

47.1 The enforcement of law and order requires a professionalized police service. The responsibilities of the Police Service have increased with rising traffic volumes, crimes, tax and financial frauds, illicit liquor and drugs business and also due to the gradual taking over of civil security responsibilities in the North. In order to update their remuneration, the Service Specific Allowances were increased in 2013 as they had not been revised for 20 years. Arrangements have also been made to provide technical equipment and mobile vehicles to make traffic police services more efficient and effective. I propose to expand facilities at the National Police Academy to train and develop professional standards of police officers. I also propose to build three new housing complexes in the greater Colombo area, to solve the housing problems of police officers working in Colombo.

48.0 Proposals of People's Representatives

48.1 Honourable Speaker, pre-budget consultations with the Deputy Ministers and Members of Parliament, enable us to localized priorities in their electorates. Their proposals were broadly concerning minor irrigation projects, agricultural roads, schemes to provide protection from wild animals, buildings and sanitation requirements of rural schools, access roads to plantation and remote areas, setting up market places, fisheries harbour and anchorages, lagoon rehabilitation, crematorium facility improvements etc. I believe that the completion of these projects in recognized areas based on priorities, will add greater value to the various development projects that have been already undertaken all over the country. I propose to allocate Rs. 4,000 million to implement these small and medium special development projects under the supervision of a special task force.

49.0 2017 - Asian Youth Games

49.1 Honorable Speaker, our country is privileged to be selected to host the 3rd Asian Youth Games in Hambantota in 2017. This is an international multi-sport event that will mobilize 5,000 athletes from around 45 nations to one common platform. I intend to mobilize our youth from all corners of Sri Lanka for this international event, further consolidating our national reconciliation efforts. Therefore, I propose to provide Rs. 500 million in 2014 for the commencement of the preparation of our school children, athletes, youth and sports clubs to take part in this multi-sport event by utilizing the already

built sports infrastructure available across the country. I also propose to offer tax and other incentives to international sports establishments to relocate their head office or regional offices in Sri Lanka.

50.0 Empowering the Youth

50.1 Honourable Speaker, it is necessary to inculcate teamwork, a collective sprit and to build up self - confidence among our youth. Leadership qualities and sensitivity to social values must also be cultivated. The leadership training initiatives of universities, National Youth Corps and National Youth Services Council have shown successful outcomes. The Youth Parliament helps to develop leadership skills among youth with democratic values. At the Youth Forum of the 2013 Commonwealth Heads of Government Meeting, our youth made an impressive participation. Therefore, I propose to raise allocations for youth programs by Rs. 150 million. The 2014 United Nations World Youth Conference to be held in Hambantota will provide a unique opportunity to us to project those admirable qualities of the Sri Lankan youth. I propose to allocate Rs. 250 million for the implementation of special programs to encourage the participation of our youth at this conference.

51.0 Public Servants

51.1 The Public Servant salary structure was rationalized in 2006 on the basis of a 1to 4 ratio. A Cost-of-Living-Allowance and other allowances were granted to all public servants annually thereafter, to increase their emoluments. Various anomalies were corrected and arrears were paid. Vacancies were filled and new recruitments were made to improve the service delivery.

51.2 There is an urgent need to formulate a National Wage Policy as the difference between the private sector and the public sector, as well as state enterprises and government services have widen. There are also collective agreements that govern salaries of certain Government agencies as well as private enterprises. Pensionable services as well as Provident Funds have also expanded. Although, I proposed a contributory pension scheme, it could not be implemented as certain people opposed it. Those who opposed it now want the Government to implement it. There are requests from certain public servants to add the prevailing allowances to the salary structure. This will create anomalies among pensioners. All these concerns must be carefully examined before we adopt a new pay structure for the next several years. I have appointed a Pay Commission to look into all these concerns and formulate a new pay structure for the Public Service. I hope to implement such recommendations no sooner they are made.

51.3 However, as done in my previous Budgets, I propose to increase the Cost- of-Living-Allowance to all Public Servants by Rs.1,200 per month, from January 2014. I also propose to increase the Cost-of-Living-Allowance to pensioners who retired before 2006 by Rs. 600 and by Rs.400to others. I request Private sector employers who do not adjust salaries of employees in line with the Cost- of-Living- Allowance, to suitably increase the wages of their employees.

52.0 Conclusion

52.1 Honourable Speaker, our country which is emerging as a strong middle income economy in the Asian region has reached a unique crossroad. The solid consolidation of security, peace and democracy is admirable. It is impressive. The rapid transformation witnessed in infrastructure is investment friendly. The attraction of our country has been further enhanced by the enthusiasm being demonstrated by the new generation in education and skills development and the shift towards science, technology and

research based production. Blessed by a well-connected regional growth, agriculture and irrigation has nurtured the self-sufficient agrarian economy, while ensuring food security and creating ample livelihood opportunities for them. Consequently, poverty - a social and economic injustice- is fast depleting in our country.

- 52.2 The task ahead of us now is to accelerate economic development, to be able to address the emerging aspirations and goals of particularly our low and middle income people. In this development process, their aspiration will be to shift towards better health and education. Better standards in housing and healthy living will be their desired goal. Our rural farmers want access to irrigation, transport facilities and widespread urban-rural integration that promotes a value chain, with better markets for their farm products. We need to develop urban settlements and transport that will be capable of providing decent living for our urban work force. Nutritional deficiencies and concern of the differently abled, should also receive priority attention.
- 52.3 I believe that the crossroad we have reached is a unique opportunity for us to take a leap towards fulfilling the aspirations of our people. That is why we cannot afford to let go this opportunity we have got to create a strong future for our future generations. Although we have defeated terrorism on the ground, the forces that were behind remain to be active. That is a main obstacle for the promotion of peace and national reconciliation and to strengthening international cooperation. Winning future challenges by overcoming these obstacles remains to be our national responsibility. Therefore, on behalf of the future generation, I invite all of you to work together towards social and economic development, while consolidating national unity.
- 52.4 Honourable Speaker, I table all details of revenue and expenditure proposals and the relevant reports required to be tabled in terms of the Fiscal Management (Responsibility) Act. I invite the Honourable Members of Parliament to engage in a constructive debate on this Budget, and grant the required approvals of Parliament.

May the Triple Gem Bless You!

BUDGET SPEECH

2014

**Technical Notes
and
a List of Reports/Documents
Submitted to Parliament**

LIST OF REPORTS & DOCUMENTS

1. Fiscal Management Report 2014
Ministry of Finance and Planning - Department of Fiscal Policy
2. Budget Estimates (Volume 1, 2, 3) 2014
Ministry of Finance and Planning - Department of National Budget
3. Global Partnership in Development
Ministry of Finance and Planning - Department of External Resources
4. Recent Economic Developments: Highlights in 2013 and Prospects for 2014
Central Bank of Sri Lanka
5. Development Performance- Mid Year Review - 2013
Ministry of Finance and Planning - Department of Project Management and Monitoring
Refer -www.treasury.gov.lk
6. Unstoppable Sri Lanka2020 – Public Investment Strategy 2014-2016
Ministry of Finance and Planning – National Planning Department (submitted in English)

TECHNICAL EXPLANATIONS:

7. **Statistical Tables**-(Department of Fiscal Policy and the Department of National Budget)
 - i. Expenditure Proposals -2014 Allocations to be made from Treasury Votes (Table I)
 - ii. The Proposals to broaden the tax base - 2014 (Table II)
 - iii. Gross borrowing requirements - 2014 (Provisioning for Accounting Transactions) (Table III)
 - iv. Summary of the Budget (2009- 2014) (Table IV)

8. Technical Notes to the Budget Proposals

Ministry of Finance and Planning (Department of Fiscal Policy) (Annex 1)

- (1) Income Tax- Amendments to Inland Revenue Act No 10 of 2006
- (2) Value Added Tax -Amendments to Value Added Tax Act No 14 of 2002
- (3) Nation Building Tax- Amendments to Nation Building Tax Act No 09 of 2009
- (4) Special concessions for professional services sector
- (5) Cess
- (6) Customs Duty
- (7) Special Commodity Levy (SCL)
- (8) Tariff Reductions under Free Trade Agreements
- (9) Negative List of items for BOI approved Projects
- (10) Depreciation Table for Used Motor Vehicles
- (11) Ports & Airports Development Levy (PAL) – Amendments to the PAL Act No 18 of 2011
- (12) Excise (Special Provisions) Act No 13 of 1989
- (13) Telecommunication Levy – Amendments to Telecommunication Levy Act No 21 of 2011
- (14) Measures to improve tax collection and tax administration
- (15) Insurance industry
- (16) Technical rectifications
- (17) Effective dates of proposals

Table I : Expenditure Proposals - 2014
Allocations to be made from Treasury Votes

Rs. Mn.

Proposals		Current	Capital
1	The establishment of National Community Water Supply Department and related development work	-	300
2	Provision for revenue shortfall of the Sri Lanka Transport Board	500	-
3	Accelerated development of <i>Uma Oya</i> , <i>Moragahakanda</i> and <i>Yan Oya</i> irrigation schemes	-	14,000
4	Development of high quality seed and planting material	300	-
5	Modernization of agrarian service centers	-	300
6	Development of minor irrigation systems and abundant paddy lands	-	2,300
7	Incentives for agricultural field level officials	300	-
8	Lease subsidy for the provision of motor bicycles for field officials	2,000	-
9	Food aid to World Food Programme	-	3,000
10	Setting up of evolving funds for grain producing districts under District Secretariats	-	1,500
11	Soil conservation assistance to Small Tea Holders	-	200
12	Capital contribution for Farmers Pension Scheme	-	1,000
13	Agricultural research and laboratory facilities in universities located in Provinces	-	500
14	Development of Fishery Harbours and Anchorage facilities	-	1,000
15	Strengthening of Veterinary Service	200	-
16	Allowance for Veterinarians	50	-
17	Development of 1,000 bridges and upgrading road facilities of connected villages	-	4,500
18	Provision of small buses for remote villages	-	300
19	Coordination and supervisory allowance for District Secretaries, Divisional Secretaries, District Planning Directors and District Chief Accountants	25	-
20	Modernization of vocational schools for disabled persons	-	100
21	Prevention of child abuse and violent against women	300	400
22	Strengthening of Local Government (<i>Pradeshiya Sabhas</i>)	1,400	2,000
23	Wildlife Conservation at selected Divisional Secretariat Divisions	-	1,000
24	Strengthening of Wildlife Department	-	200
25	Rural water purification project for North Central Province	-	900
26	Investment in non-communicable disease - Cancer, stroke and Kidney	-	2,000
27	Modernization of children hospital	-	1,000
28	Development of Colombo, <i>Ragama</i> , <i>Kalubowila</i> National Hospitals	-	12,000
29	Incentive payments for Hospital Staff	100	-
30	Performance art centers at Kandy and Anuradhapura	-	1,500
31	Modernization of Lionel Wendt, <i>Lumbini</i> Theater and Galle Townhall Theater	-	300
32	05 holiday bungalows for artists	-	150
33	Heritage conservation and promotion Initiative	-	100
34	Sanitary and other facilities in rural schools	-	1,000
35	Modernization of <i>Maharagama</i> and other Teacher Training Colleges	-	750
36	<i>Pirivena</i> Education	150	300
37	Skills education initiative	-	1,200
38	Incentives for Lecturers and students in vocational education	300	-
39	Expansion of new faculties at universities and quality improvement	-	2,000
40	Academic allowance for University Lecturers/ Professors	200	-
41	Development of Postgraduate Institute of Medicine	-	600
42	Research Allowance for Doctors and allowances for Medical Interns	1,400	-
43	Expansion of <i>Nenasala</i> centers and new facilities	-	1,000
44	Initial Capital for the establishment of a National Science Center	-	300

45	Greater Colombo Flood Protection Programme	-	1,500
46	Upgrading and modernization of housing schemes	-	800
47	Low Income Housing Development Programme	-	500
48	Legal and Judicial Reform	-	500
49	Personal allowances for Judges	25	-
50	Housing schemes for Police Service	-	1,500
51	Expansion of facilities at the Police Academy	-	500
52	Implementation of project proposals by People's Representatives	-	4,000
53	Preparation of youth for the 2017 Asian Games	-	500
54	Allocation for youth development	-	150
55	Participation of the 2014 UN Youth Conference	-	250
56	Cost-of- Living Allowance for Public Servants	17,300	-
57	Cost-of- Living Allowance for Pensioners	3,300	-

Compiled by the Department of National Planning and the Department of National Budget

Table II : Proposals to Broaden the Tax Base - 2014

New Revenue Proposals		Rs. Million
1	Extension of NBT to banking and financial institutions	3,665
2	Strengthening the application of Value Added Tax at supermarket and trade scale (Quarterly turnover of Rs. 250 million and exemption limited to 25 percent of turnover)	15,000
3	Telecommunication Levy to be fixed at 25 percent	4,000
4	Revision in depreciation of motor vehicle for Customs Duty	2,000
5	Revision in CESS on Primary Commodity Exports and items vulnerable to undervaluation to ensure domestic value chain	4,000
6	Revision in Special Commodity Levy / Customs Duty for the support of local value addition	12,750
Total		41,415

Compiled by the Department of Fiscal Policy

Table III: Gross Borrowing Requirements - 2014
(Provisioning for Accounting Transactions)

Item	Rs. Billion
Total Revenue Receipts and grants	1,495
Total Payments Including Debt Repayments	2,599
Provision for Advanced Accounts Operations	4
Risk Provision on account of variation in receipts and payments	50
Contingent liability and issue of bonds for the Balance Sheet restructuring of SOEs	30
Adjustments for book / cash value of government securities	90
Total Gross Borrowing Requirement to be recorded in Government Accounts	1,278
Of which, Total Debt Repayments	589

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

Table IV: Summary of the Budget (2009-2014)

	Rs. Billion				
	2009	2010	2012	2013	2014 Budget
Total Revenue and Grants	725.6	834.1	1,067.5	1,203.1	1,469.5
Total Revenue	699.7	817.2	1,051.4	1,183.1	1,437.4
Tax Revenue	619.0	724.7	908.1	1,052.2	1,274.6
Income Tax	139.6	135.6	172.5	239.5	283.3
Taxes on Goods and Services	316.0	435.4	519.6	578.4	688.5
Taxes on External Trade	163.3	153.7	216.6	234.1	302.6
Non Tax Revenue	80.7	92.5	142.5	130.9	162.8
Grants	25.9	16.9	16.0	20.0	32.0
Total Expenditure	1,201.9	1,280.2	1,556.5	1,712.4	1,985.6
Recurrent	879.6	937.1	1,131.0	1,224.9	1,328.3
Salaries and Wages	271.2	300.6	347.7	391.4	410.6
Other Goods and Services	108.5	87.7	140.0	132.2	191.8
Interest	309.7	352.6	408.4	444.8	441.0
Subsidies and Transfers	190.2	196.2	234.6	256.4	284.7
Public Investment	330.4	356.5	443.9	503.9	668.5
Education and Health	30.5	32.4	46.1	55.5	74.1
Infrastructure	299.7	324.1	397.9	448.4	594.4
Other	(8.1)	(13.4)	(18.4)	(16.4)	(11.1)
Revenue Surplus(+)/Deficit(-)	(179.9)	(119.9)	(79.5)	(41.7)	109.2
Budget Deficit Surplus(+)/Deficit(-)	(476.4)	(445.9)	(488.9)	(509.2)	(516.1)
Total Financing	476.4	445.9	488.9	509.2	516.1
Total Foreign Financing	83.9	194.9	180.7	149.8	235.5
Foreign Borrowings-Gross	194.2	269.9	364.6	247.1	331.5
Foreign Borrowings	136.8	158.0	234.4	247.1	234.0
Foreign Commercial	57.4	111.9	130.2	0.0	97.5
Debt Repayments	(110.3)	(75.1)	(183.8)	(97.2)	(96.0)
Total Domestic Financing	392.5	251.1	308.2	359.3	280.6
Non-Bank Borrowings	196.5	204.1	70.9	104.7	129.3
Foreign Investments in T-Bills and T-Bonds	146.9	48.8	105.6	53.2	51.3
Bank Borrowings	49.0	(1.9)	131.5	201.4	100.0
Revenue and Grants/GDP (%)	15.0	14.9	14.1	13.8	14.8
Revenue /GDP%	14.5	14.6	13.9	13.6	14.5
Tax/GDP (%)	12.8	12.9	12.0	12.1	12.8
Expenditure/GDP (%)	24.9	22.8	20.5	19.7	20.0
Current Expenditure/GDP (%)	18.2	16.7	14.9	14.1	13.4
Public Investment/GDP (%)	6.8	6.4	5.9	5.8	6.7
Revenue Surplus (+)/Deficit (-) / GDP (%)	(3.7)	(2.1)	(1.0)	(0.5)	1.1
Primary Surplus (+)/Deficit (-) / GDP (%)	(3.4)	(1.7)	(1.1)	(0.7)	(0.8)
Budget Surplus (+)/Deficit (-) / GDP (%)	(9.9)	(8.0)	(6.4)	(5.8)	(5.2)

Compiled by the Department of Fiscal Policy

Technical Notes

Budget Proposals 2014 - Taxation

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

1.1 Exemptions/ Taxation at concessionary rates

1.1.1 Exemptions

1.1.1.1 Institutional Exemptions

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

- (a) National Enterprise Development Authority established under the National Enterprise Development Authority Act No 17 of 2006;
- (b) Sri Lanka Institute of Marketing incorporated under the Sri Lanka Institute of Marketing Act No 41 of 1980 ;
- (c) The Institute of Physics Sri Lanka incorporated under the Institution of Physics Sri Lanka (Incorporation) Act No 12 of 1986.

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

1.1.1.2 Source wise Exemptions

(a) Marginal relief to employees having other income not taxable at source as final tax :

Profits and income not exceeding in the aggregate of Rs.48,000/- for any year of assessment, other than any employment income, or any profits or income which is taxable at source as final tax, of any employee who is not engaged in any trade, business, profession or vocation, if tax is deducted from his employment income for that year of assessment.

(Section 8 of the Inland Revenue Act will be amended).

- (b) Profits and income arising or accruing to any company, partnership or body of persons outside Sri Lanka , from any payment made for the use of any computer software , by

Sri Lankan Air lines Limited or Mihin Lanka (Pvt) Ltd, as a special requirement of such Airlines, if a Double Taxation Avoidance Agreement providing relief for double taxation of such profits is not in force between Sri Lanka and the other country or tax is not payable in that country on such profits or income.

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

- (c) Dividends distributed out of exempt dividends received by a company on investment made outside Sri Lanka as referred to in section 10(1)(j) of the Inland Revenue Act, if such distribution is made within one month of receipt of such dividends

(Section 10 of the Inland Revenue Act will be amended).

1.1.2 Concessionary rates

1.1.2.1

The present concessionary rate of 12% applicable to profits and income from the supply of certain services to garment exporters will be extended to cover services provided to:

- exporters of goods or services; or
- the foreign principal directly

being services which could be treated as essentially related to manufacture of such goods or provision of such services and the payments for such services are made by the exporter or the foreign principal to such supplier of services, in Sri Lanka, in foreign currency.

The present exemption applicable to profits and income earned in foreign currency for the provision of services to a person outside Sri Lanka (to be utilized outside Sri Lanka) referred to in section

13 (ddd) of the inland Revenue Act will remain as is it.

(Section 58 of the Inland Revenue Act will be amended).

1.1.2.2

The applicability of section 51 and section 52 of the Inland Revenue Act providing for concessionary rate on qualified export profits will be extended.

(Sections 51 and 52 of the Inland Revenue Act will be amended).

1.1.2.3

To maintain the uniformity of the application of concessionary rates applicable to various sectors, the current 10% rate for undertakings with annual turnover not exceeding five hundred million rupees will be revised to 12%.

(Section 59B and the Fifth Schedule, of the Inland Revenue Act will be amended).

1.1.2.4 Tax rates for professionals (providing professional services)

To remove the applicability of deferent rates of taxes on the income from professions tax rate on such income will be reduced as follows :

Income from profession	Maximum rate of tax
Does not exceed Rs 25Mn	12%
Exceeds Rs 25Mn but does not exceed Rs 35 Mn	14%
Exceeds Rs 35 Mn	16%

(Relevant sections and the Rate Schedule will be amended).

1.1.2.5 Concessionary rate on employment income of professional as an employee

The maximum rate of income tax applicable on employment income of professionals will be reduced to 16%.

For this purposes employee means a medical doctor, engineer, architect, lawyer, pilot, navigation officer, software engineer, accountant recognized as a member of a recognized professional body, and a researcher or senior academic recognized as an accredited professional.

1.1.2.6 Considering the concessionary rates applicable to SME sectors and the other identified sectors (including companies), the lower rate of tax applicable to companies with taxable income not exceeding 5 million rupees will be removed.

(Second Schedule of the Inland Revenue Act will be amended).

1.1.2.7 The period for listing of shares of a company with an issue of not less than 20% to the general public for the application of the half of the applicable rate as referred to in section 59D of the Inland Revenue Act, will be extended to a further period of three years, if such company is paying corporate income tax on the profits at 28% or more.

(Section 59D of the Inland Revenue Act will be amended).

1.2 Deduction from the remuneration from employment

1.2.1 The limit of monthly receipts, by an individual employed in the public sector under more than one employer, for the application of 10% rate will be raised to 50,000.

1.2.2 Where an individual is employed under more than one employer or serving in different places and receiving any benefit from the private use of a motor vehicle provided by the employer or any allowance from more than one employer or from more than one place, then the excess of aggregate of such benefits or allowance over fifty thousand rupees will form part of such employee's employment income liable to tax.

(Section 117A of the Inland Revenue Act will be amended).

1.3 Restriction on the applicability of tax holiday and qualifying payments

1.3.1 The exemption under section 22 of the Inland Revenue Act will be restricted to investments made prior to 1.4. 2014.

1.3.2 The deduction of the investment for expansion of an existing undertaking as qualifying payments referred to in paragraph (s) or paragraph (t) of subsection (2) of section 34 will be restricted to such investments made prior to April 1, 2014.

1.3.3 In view of the applicability of lower tax rates to various sectors and accelerated depreciation allowances together with deductibility of expenses such as research & Development, opening up expenses etc., the prevailing minimum investment and the corresponding period of tax exemption will be further rationalized.

(Sections 16C, 16D and 17A will be amended.)

1.4 Revision of the definition of “ executive officer” for tax purposes

The monthly emoluments for the purpose of definition of an “executive officer” will be revised from Rs 25,000/- to Rs 75,000/-.

(The definition of the “executive officer” in section 217 will be amended).

2 Value Added Tax (VAT) [Amendments to VAT Act No 14 of 2002]

2.1 A New VAT Act will be introduced effective from 1.1.2014 codifying the amendments made to that Act up to 2013 and the amendments arising from the Budget 2014 proposals.

2.2 Exemptions

2.2.1 The present exemption available to telecom industry on the import or local purchase of any machinery or high tech equipment for telecom industry will be expanded to cover the import or local purchase of copper cables, subject to the same conditions specified in item (xx) of paragraph (a) of PART II of the First Schedule to the VAT Act, so far as such copper cables are used for the infrastructure development of the industry.

The exemption for importation will be available only if such cables are not available in Sri Lanka up to the required quality and the quantity.

2.2.2 The present exemption applicable on the import of gully bowsers, semi- trailers for road tractors, any machinery or equipment used for garbage disposal activities carried out by any local authority, for the purposes of provision of such services to the public as approved by the Secretary to the relevant Ministry, will be expanded to cover the exemption on such items, for purchasing of such items from local manufacturers as well, subject to the same conditions.

2.2.3 Import or supply of following goods will be exempted from VAT :

- (a) Ties and bows under HS Code Nos 62.15.10, 62.15.20, 62.15.90
- (b) Designer pens under HS Code 96.08.30
- (c) Frozen Bait , Fish Hooks/rods/reels , Fishing tackle under HS Code 0511.91.90,9507.10, 9507.20,9507.30 and 9507.90
- (d) Marine Propulsion Engines under HS Code 8407.21, 8407.29.

(PART II of the First Schedule of the Value Added Tax will be amended)

2.3 Restrictions of Exemptions

2.3.1 The application of the exemption from VAT on goods subjected to Special Commodity Levy (SCL) will be restricted to the VAT payable at the point of Customs only, in the case of any importer whose value of supplies in the local market out of goods imported exceeds Rs 250 Mn for any consecutive period of three months in a Calendar year.

Accordingly, the local supply of such goods referred to in item (xiii) of paragraph (b) of PART II of the First Schedule, will be subjected to VAT, if the total value of supply of the import of such goods for any consecutive period of three months of any calendar year exceeds Rs 250 MN.

2.3.2 The exemption on the import or supply of such imported goods set out below will be removed:

- 2.3.2.1 Paddy, rice, wheat, cardamom, cinnamon, cloves, nutmeg, mace, pepper, desiccated coconuts, rubber, latex, fresh coconuts, tea including green leaf, rice flour, wheat flour, bread, eggs , liquid milk or powdered milk ;
- 2.3.2.2 Agricultural tractors or road tractors for semi-trailers under HS Code Nos 8701.10.10, 8701.10.90, 8701.20.10, 8701.90.10 8701.90.20 ;
- 2.3.2.3 Machinery and equipment for the tea and rubber industry under HS Code Nos 8438.80.40, 8429.10 ;
- 2.3.2.4 Machinery for modernization of factories by the factory owner;
- 2.3.2.5 Plant and machinery by an undertaking qualified for a tax holiday under section 24C of the Inland Revenue Act No 10 of 2006;
- 2.3.2.6 Pharmaceutical preparations falling under HS Code Nos 3003.90.11, 3003.90.12, 3003.90.13, 3003.90.15, 3003.90.19, 3004.90.11,3004.90.12, 3004.90.13, 3004.90.15, or 3004.90.19

2.4 VAT on wholesale and retail businesses

- 2.4.1.** The present threshold of quarterly value of supplies of any person or partnership carrying on a business of wholesale or retail trade for the chargeability to VAT, will be reduced from Rs 500Mn to Rs 250Mn.

Whether a subsidiary or associated company of a group of companies, engaged in a wholesale or retail sale has reached the liable threshold for any quarter will be determined based on the aggregate value of supplies of each company in the group, engaged in such trade, for that quarter.

- 2.4.2.** The exemption applicable to the supply of goods specified in PART II of the First Schedule will be subjected to a maximum of 25% of the total supplies, in the case of a wholesale or retail business which supplies goods liable to VAT and goods exempted from VAT.

The input tax credit attributable on such liable supplies (if any), due to this adjustment will be allowed as referred to in section 22.

(Section 3, section 8 and section 22 of the VAT Act will be amended)

2.5 Expanding the definition of international transportation

The present definition will be expanded to cover the services directly related to transportation of goods or passengers between international Air Ports situated within Sri Lanka.

2.6 The contribution to the VAT Refund Fund

The percentage of the contribution to the VAT Refund Fund by the Director General of Customs out of the VAT collected on the importation of goods into Sri Lanka will be reduced from 10% to 6% considering the reduction of refund claims due to the implementation of the SVAT Scheme.

(Section 71(2) of the VAT Act will be amended w.e.f 1/4/2013)

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

3.1 Exemptions

- 3.1.1** Retail trade of goods at duty free shops for payment in foreign currency.
- 3.1.2** Sale of locally manufactured coconut oil by the manufacturer, for a period of three years
- 3.1.3** Distribution of LP Gas
- 3.1.4** Services provided in any Airport for payments in foreign currency

3.2 Restriction of exemptions

- 3.2.1** The application of the exemption from NBT on goods subjected to Special Commodity Levy will be restricted to NBT payable at the point of Customs only.

Accordingly, the local supply of such goods will be liable to NBT.

{Subsection (2) of Section 3 of the NBT Act will be amended}

- 3.2.2** The exemption of financial services from NBT will be terminated in view of the withdrawal of the requirement of depositing funds in the Investment Fund Account.
- 3.2.3** The exemption on the turnover on the sale of tractors will be restricted to locally manufactured tractors only. The importation of tractors falling under HS Code Nos 8701.10.10, 8701.10.90, 8701.20.10, 8701.90.10 8701.90.20 will be liable to NBT.
- 3.2.4** Pharmaceutical preparations falling under HS Code Nos .Nos 3003.90.11, 3003.90.12, 3003.90.13, 3003.90.15, 3003.90.19, 3004.90.11, 3004.90.12, 3004.90.13, 3004.90.15, or 3004.90.19 will be liable to NBT at the import point.

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

Special concessions for professional service sector

4.1 Relocation of International Headquarters or Regional Head Offices

To promote the establishment by relocating in Sri Lanka the Headquarters or Regional Head offices of institutions in the international network, the following concessions will be accorded:

- (a) Income tax holiday for a specific period;
- (b) Deduction of special expenses connected with the incorporation of such Headquarters or the Regional Head offices;
- (c) Relief for payment of VAT and NBT on receipts in foreign currency.

4.2 Construction of residential apartments for professionals

Where any individual engaged in any profession alone or together with such other individuals, sets up a consortium with a bank and the construction contractors for the purpose of constructing a Residential Apartment complex for their own residential purposes, then the following concessions will be accorded:

- (a) Bank providing loan facility will be taxed only at $\frac{1}{2}$ of the applicable rate on the interest on such loans granted to such individuals for that purposes.
- (b) Qualifying payment of an amount not exceeding Rs 50,000/- per month on the capital repayment will be allowed to be deducted in full by such individuals, on the respective payment.
- (c) Stamp Duty applicable on the deed of transfer of the property will be reduced by 25% thereof.

(Section 13 and section 34 of the Inland Revenue Act and relevant provisions of the application of Stamp Duty of the Provincial Council will be amended)

4.3 Concessions to promote acquisition of International Intellectual Properties with established international brand names

The following concessions will be accorded to any establishment which acquires any internationally recognized intellectual property and earns income in foreign currency by way of royalty

- (a) Total cost of acquisition will be allowed as a deduction for income tax purposes;
- (b) The income earned in foreign currency will be exempted for a specific period of time;

4.4 Concessions for creation of Corporate Entities by professionals:

The following concessions will be accorded to professionals who establish corporate entities to provide international services :

- (a) $\frac{1}{2}$ of the applicable Corporate income tax rate for a period of 5 years on services liable to tax;
- (b) Concessions of 10% of the aggregate taxes and duties on the importation of a motor vehicle will be allowed, if more than US\$ 100,000 per year is remitted to Sri Lanka in any consecutive period of distinct 3 years.

4.5 Concession for skill development in the shipping industry

A deduction of 10% of income tax payable by a ship operator or any agent of a foreign ship will be allowed in consideration of the provision of skill development in the shipping industry to trainees.

The criterion for the deduction will be decided based on the number of individuals trained.

4.6 Deduction of the cost of acquisition of financial institutions by way of merger or acquisition by the main company which is a financing company

The cost of acquisition or merger of financial companies by the main company will be allowed for deduction within 3 years of assessments.

5 Cess

5.1 Import Cess

Cess rates have been revised on following items to promote local value addition

Item	HS Heading/ HS Code
Cheese, Curd and similar products	04.04, 04.06, 04.08 and 04.10
Cut flowers, Foliage	06.03 and 06.04
Vegetables (Cabbages, Lettuce, Carrots, Cucumbers, Leguminous vegetables, Tomatoes, and similar vegetables (fresh, Chilled or cooked)	07.04,07.05, 07.06,07.07,07.08, 07.09,07.10, 07.11, 0712.31, 0712.32,0712.33,0712.39,0712.90.10, 20.01,20.02,20.04,20.05
Mushrooms and truffles	20.03
Manioc, Sweet potatoes and similar yams	07.14
Nuts and Fruits(Pineapples ,Avocados, Guavas, Mangoes, Mangos teens, Citrus fruit (except fresh Mandarins and apples) , Melons, Papaws, pears, Apricots, Cherries, Peaches and other similar fruits and nuts (fresh, dried or prepared)	08.01,08.02, 08.03, 08.04, 08.05(except 0805.20.10) 08.06,08.07,08.08,08.09,08.10,08.11,08.12,08.14, 2006.00.10, 20.06.00.90, 20.07.91,20.07.99,20.08
Fruit juice	20.09
coffee, pepper, vanilla and cinnamon	09.01,09.04,09.05,09.06
Artificial Flowers	67.02
Mosquito coil	38.08.50.10
Wheat or Meslin flour	1101.00.10
Margarine or vegetable fats and poultry fat	15.01,15.09,15.10,15.17
Sausages and similar products	16.01,16.02,16.03
Sauces and preparations	21.03
Sugar confectionary	17.04
Chocolate and other preparations containing cocoa	18.02,18.03,18.04,18.06
Pasta and similar products	19.02
Cereals and similar products	11.04,19.04
Soups and broths and similar preparations	21.04
Ice cream and other edible ice	21.05
Waters including natural or artificial mineral waters	22.01 and 22.02
paints and varnish	32.08,32.09
Beer made from malt, un denatured ethyl alcohol and similar beverages	22.03,22.08
Vinegar	22.09
condles	34.06
battery	85.06.10
Josh Sticks	33.07.41
Portland cement in packing of 50 kg and below	2523.29.20
Gauze	3005.10, 3005.90 , 58.03.00
Soap and Face Wash	3401.11, 3401.19,3401.20 and 3401.30
Laminated Sheets	39.20
Sanitary napkins	96.19.00
Steel Products	72.04 ,72.14.20.90 ,73.06.30 ,73.06.69.90 ,73.06.90.90 , 73.06.61.90, 73.14.20 ,73.14.31 ,73.14.41, 73.14.42, 73.14.49, 73.23
Aluminum bars and tubes	76.04, 76.08 ,76.10
Padlocks, hinges	83.01, 83.02.10, 83.05 ,83.06
Furniture	94.03
Brooms and Brushers	96.03
Rubber Machines and rubber products	4084.20.10.10.

Cess will be removed/revised on following items

Item	HS Heading/ HS Code
Tung oil	15.15.90.10
Paper board	48.11.51.10
Unbleached Fabric	52.09.11, 52.10.11, 52.11.11, 52.12.21, 58.02.11
Aluminum Wires	76.05.11

To promote branded items for international shopping Cess has been removed on the following items

Item	HS Heading/ HS Code
Designer Pens	96.08.30
Ties and bows	62.15.10 ,62.15.20 ,62.15.90

With the down ward revision of custom duty rates, with a view to make revenue neutral , Cess rates on imports have been adjusted.

5.2 Export Cess

To promote local value addition Cess has been introduced for following items

Item	HS Heading/ HS Code
Pepper	09.04.11.10
Cinnamon	09.06.11.10
Clove	09.07.10.10
Nutmeg and Cardamoms	09.08.11.10

6 Customs Import Duty

A four band tariff structure presently in place is further consolidated aligned with simplicity to facilitate production and trade as follows;

Classification	Customs Duty (%)	No. of Tariff Lines
Essential inputs, not manufactured locally	0	3,376
Raw materials & semi raw materials	7.5	184
Intermediate goods	15.0	1,605
End user products	25.0	1,412

The following changes of Customs Duty are effective from 22nd November 2013.

IT/BPO sector

HS Code	Customs Duty (%)
IT supportive printers	
8443.31.10	Free
8443.31.90	Free
8443.32.10	Free
8443.32.20	Free
8443.32.90	Free
8443.39.10	Free
8443.39.90	Free
8443.99.10	Free
Optical fibre cables	
8544.70	Free

Energy saving materials

HS Code	Customs Duty (%)
Solar control films	
3919.90.10	Free

Branded items for up market development

HS Code	Customs Duty (%)
3303.00.10	7.5
9608.30	7.5
6215.10	7.5
6215.20	7.5
6215.90	7.5

Local value addition and backward integration with domestic value creation

Machinery and heavy industry

HS Code	Customs Duty (%)
Tea machinery	
8438.80.40	7.5

Tractors	
8701.20.10	7.5
8701.20.20	7.5
8701.30.10	7.5
8701.30.20	7.5
8701.90.30	7.5
8701.90.40	7.5
Steel	
7207.11.10	7.5
7207.20.90	7.5
Cement	
2523.21	7.5
2523.29.10	7.5
2523.29.20	7.5
2523.29.30	7.5
2523.30	7.5
2523.90	7.5

Ayurdevic industry

HS Code	Customs Duty (%)
2712.10	7.5
2712.20	7.5
2914.29.10	15.0
3301.25	7.5
3301.90.93	7.5
3301.90.96	7.5
3301.90.99	7.5

Fisheries industry

HS Code	Customs Duty (%)
Frozen bait	
0511.91.90	7.5

Confectionary industry

HS Code	Customs Duty (%)
Flavours	
2103.90.10 (new NSD)	15.0
2103.90.90 (new NSD)	15.0
Cocoa beans	
1801.00.10	15.0
1801.00.20	15.0

Gold and motor vehicle imports

Gold

HS Code	Customs Duty (%)
7108.11	7.5
7108.12	7.5
7108.13	7.5
7108.20	7.5

Diesel hybrid vehicles (new NSD)

HS Code	Customs Duty (%)
8703.31.71	15.0
8703.31.79	15.0
8703.31.81	15.0
8703.31.89	15.0
8703.31.91	15.0
8703.31.92	15.0
8703.31.93	15.0
8703.31.94	15.0
8703.32.51	15.0

8703.32.52	15.0
8703.32.53	15.0
8703.32.61	15.0
8703.32.69	15.0
8703.32.72	15.0
8703.32.81	15.0
8703.32.89	15.0
8703.32.91	15.0
8703.32.92	15.0
8703.32.94	15.0
8703.32.95	15.0
8703.32.96	15.0
8703.32.97	15.0
8703.32.98	15.0
8703.32.99	15.0
8703.33.51	15.0
8703.33.59	15.0
8703.33.61	15.0
8703.33.69	15.0
8703.33.72	15.0
8703.33.81	15.0
8703.33.89	15.0

Other Industries for local value addition

HS Code	Customs Duty (%)
Boat manufacturing industry	
8902.00	25.0
8903.10.90	25.0
8903.91	25.0
8903.92	25.0
8903.99.90	25.0
8904.00.10	25.0
Wheel barrows & parts	
8716.80.20 (new NSD)	25.0
8716.90.10 (new NSD)	25.0
Gauze	
5803.00	25.0
3005.10	25.0
3005.90	25.0

7. Special Commodity Levy Act No. 48 of 2007

The Special Commodity Levy is revised on import of following items:

Item	HS Code
Sprats	0305.59.20
Watana - whole/split	0713.10.10, 0713.10.20
Chickpeas - whole/split	0713.20.10, 0713.20.20
Green gram	0713.31.10
Canned fish	1604.11, 1604.12, 1604.13, 1604.14, 1604.15, 1604.16, 1604.17, 1604.19, 1604.20
Sugar	1701.12, 1701.13, 1701.14, 1701.91.10, 1701.91.90, 1701.99.10, 1701.99.20, 1701.99.30, 1701.99.90
Maldives fish	0305.59.10
Dried fish	0305.59.90
Orange	0805.10.10
Coriander - neither crushed nor ground or crushed or ground	0909.21, 0909.22
Cumin - neither crushed nor ground or crushed or ground	0909.31, 0909.32
Fennel	0909.61.20

Turmeric - neither crushed nor ground or crushed or ground	0910.30.10, 0910.30.90
Black gram flour	1106.10.10
Ground nuts	1202.42
Mustard seed	1207.50
Palm oil - crude and refined	1507.10, 1507.90, 1511.10, 1511.90.10, 1511.90.20, 1511.90.90, 1512.11, 1512.19, 1513.11.11, 1513.11.19, 1513.11.21, 1513.11.29, 1513.19.10, 1513.19.90, 1513.21, 1513.29
Salt	2501.00
Yoghurt	0403.10
Butter	0405.10
Margarine	1517.10.10, 1517.10.90

8. Tariff reductions under the Free Trade Agreements

Under South Asia Free Trade Agreement (SAFTA) and India - Sri Lanka Free Trade Agreement (ISFTA), 208 and 10 items are removed respectively from the negative list of Sri Lanka with effect from 22nd November 2013.

South Asia Free Trade Agreement (SAFTA)

For Least Developed Countries (LDCs)

0104.10, 0104.20, 0201.10, 0201.20, 0201.30, 0202.10, 0202.20, 0202.30, 0205.00, 0206.10, 0206.21, 0206.29, 0207.27, 0209.00, 0307.99, 0711.20, 0802.11, 0802.12, 0802.21, 0802.31, 0802.40, 0802.50, 0802.60, 0809.10, 0809.20, 0809.30, 0812.10, 0813.10, 0813.20, 0909.10, 0909.40, 0910.20, 1001.10, 1109.00, 1212.21, 1302.11, 1302.12, 1302.13, 1302.20, 1302.31, 1302.32, 1302.39, 1404.20, 1501.00, 1505.00, 1522.00, 1603.00, 1604.11, 1604.12, 1604.19, 1604.30, 1702.20, 1702.40, 1702.50, 1702.60, 2309.10, 2710.91, 2711.11, 2711.14, 2711.19, 2711.21, 2711.29, 2713.11, 2713.12, 2713.20, 2713.90, 2714.10, 2714.90, 2715.00, 4007.00, 4805.11, 4805.12, 4805.19, 4808.30, 4808.90, 4823.20, 6811.81, 7309.00, 7318.12, 7318.13, 7318.14, 7318.16, 7318.21, 7318.23, 7419.99, 7604.10, 7604.21, 8201.10, 8201.20, 8201.30, 8201.40, 8201.50, 8201.60, 8201.90, 8211.91, 8211.93, 8211.94, 8308.10, 8308.20, 8308.90, 8413.92, 8418.29, 8418.61, 8418.69, 8421.22, 8424.10, 8432.10, 8432.80, 8432.90, 8433.40, 8433.52, 8433.59, 8438.80, 8480.71, 8480.79, 8516.10, 8516.21, 8527.99, 8528.71, 8528.73, 8538.90, 8546.90, 8547.10, 9017.20, 9612.10, 9612.20
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For all member countries

0804.20, 0810.40, 0903.00, 1008.30, 1214.10, 1901.10, 2005.91, 2523.21, 2523.29, 2709.00, 3907.50, 4002.99, 4105.10, 4106.21, 4106.31, 4106.32, 4106.40, 4106.91, 4201.00, 4202.11, 4202.12, 4202.19, 4202.21, 4202.22, 4202.29, 4202.31, 4202.32, 4202.39, 4202.91, 4202.92, 4202.99, 4203.10, 4203.21, 4203.29, 4203.30, 4203.40, 4205.00, 6402.12, 6402.19, 6403.12, 6403.19, 6404.11, 6811.82, 6913.10, 6913.90, 7015.10, 7114.11, 7114.19, 7114.20, 7215.10, 7215.50, 7215.90, 7303.00, 7313.00, 7318.24, 7615.11, 8212.20, 8215.10, 8215.20, 8215.99, 8414.59, 8418.21, 8421.19, 8423.90, 8424.81, 8433.51, 8504.22, 8516.79, 8517.69, 8527.13, 8527.21, 8527.29, 8536.70, 8536.90, 9004.10, 9004.90, 9608.91, 9615.11, 9615.19, 9615.90, 9616.10, 9616.20
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Indo - Sri Lanka Free Trade Agreement (ISFTA)

Customs Duty on the following tariff lines in the negative list of Sri Lanka will be zero rated.

Item	HS Code
Pectic substances, pectinates and pectates	1302.00
Agar-agar	1302.31
Mucilages and thickeners, whether or not modified, derived from locust beans, locust bean seeds or guar seeds	1302.32
Pet food for retail sale	2309.10
Yarn used to clean between the teeth (dental floss)	3306.20
Trade advertising material, commercial catalogues and the like	4911.10
Corrugated sheets	6811.81
Other sheets, panels & tiles	6811.82
hard rubber or plastics - Combs, hair-slides and the like	9615.11
Other - Combs, hair-slides and the like	9615.19

9. Negative list of items for BOI approved projects

In order to maintain a rational tariff structure, the list of items given below is placed on the negative list of BOI concessions. The BOI could permit companies to import these items on duty free basis only if such items are not available from local suppliers, with the concurrence of the Director General, Department of Trade and Investment Policy.

Item No.	Commodity
1	Cement
2	Steel reinforcement
3	Plywood sheets
4	Aluminum cladding material with framework
5	Plywood doors
6	PVC doors
7	Staircase, handrails, nosing and fittings
8	Ceramic/porcelain wall tile, floor tiles, marble floor tiles, granite and quartz tiles
9	Column corner guards for car park area
10	Paints
11	Aluminum and zinc/aluminum roller shutters
12	Manhole covers and grating
13	Bell and bell switches
14	Electrical wires and cables
15	Telephone cables
16	Main distribution frames, distribution/junction boxes etc
17	PVC floor gullies
18	WC's wash basin, bidets, vicinity basins, bath tubs, urinals and other sanitary fittings and fixtures
19	Power coated louvers and drills
20	Cast iron drainage fittings
21	Timber doors
22	Hinges for doors and windows
23	Floor hinges and spring hinges
24	Casement stays and casement fasteners for windows
25	Door locks, door closers, door handles, door stoppers (allowed if they come as composite units)
26	Panel bolts
27	Toilet partitions
28	Wall finishing material

10. Depreciation schedule for used motor vehicles

The depreciation schedule for the importation of used motor vehicles of HS headings 87.01, 87.02, 87.03, 87.04 and 87.11 will be revised as follows;

Period of use	Depreciated FOB value
More than 1 year and less than or equal 2 years	90%
More than 2 years and less than or equal 3 years	80%
More than 3 years and less than or equal 4 years	75%
More than 4 years and less than or equal 5 years	65%
More than 5 years and less than or equal 6 years	60%
More than 6 years and less than or equal 7 years	55%
More than 7 years and less than or equal 8 years	50%
More than 8 years and less than or equal 9 years	45%
More than 9 years and less than or equal 10 years	40%
More than 10 years	35%

11 Port and Airport Development Levy (PAL) [Amendment to PAL Act no 18 of 2011]

- (a) Aviation Fuel under HS Code No 2710.19.20 will be free from PAL
- (b) The import of pharmaceutical products under HS Code Nos, Nos3003.90.11, 3003.90.12, 3003.90.13, 3003.90.15, 3003.90.19, 3004.90.11, 3004.90.12, 3004.90.13, 3004.90.15, or 3004.90.19, 3004.10, 3004.20, and 3004.90.90 will be liable at 5%.

12 **Excise (Special Provisions) Act No 13 of 1989**

New national sub headings and new Excise (SP) Duty rates on them will be introduced to the following HS Codes:	
HS Code	New national sub headings
8703.31	8703.31.71, 8703.31.81, 8703.31.91, 8703.31.93,
	8703.31.79, 8703.31.89, 8703.31.92, 8703.31.94
8703.32	8703.32.51, 8703.32.53, 8703.32.61
	8703.32.52, 8703.32.59, 8703.32.69
	8703.32.72, 8703.32.81, 8703.32.91, 8703.32.94, 8703.32.96, 8703.32.98
	8703.32.79, 8703.32.89, 8703.32.92, 8703.32.95, 8703.32.97, 8703.32.99
8703.33	8703.33.51, 8703.33.61, 8703.33.72, 8703.33.81
	8703.33.59, 8703.33.69, 8703.33.79, 8703.33.89
8704.21	8704.21.51, 8704.21.52,
8704.31	8704.31.41, 8704.31.42
The Excise (SP) Duty on following HS Codes will be revised:	
Item	HS Code
<i>Petrol</i>	2710.12.20
<i>Diesel</i>	2710.19.40
<i>Lorries and trucks</i>	8704.21.51, 8704.21.52, 8704.31.41 and 8704.31.42
<i>Trishaws</i>	8703.21 & 8703.31
The description of the following HS codes will be revised	
8704.21.51, 8704.21.52, 8704.21.61, 8704.21.62, 8704.21.63, 8704.21.64, 8704.31.41, 8704.31.42, 8704.31.51, 8704.31.52, 8704.31.53, 8704.31.54	
<i>With the down ward revision of custom duty rates, with a view to make revenue neutral, Excise special provision rates have been adjusted in Chapter 87</i>	

13 **Telecommunication Levy [Amendments to Telecommunication Levy Act No 21 of 2011]**

The present rate of 20% applicable on Telecommunication Levy will be revised to 25%. The concessionary rate of 10% applicable on the services provided through Internet /broad band, to facilitate IT and BPO sectors will remain unchanged.

14 **Measures to improve tax collection and tax administration**(a) **Introduction of a Unique Key Number**

A Unique Key Number will be introduced to link external interfaces with Inland Revenue Department with the introduction of the proposed Revenue Administration Management Information System (RAMIS).

Through the Unique Key, RAMIS application will be integrated with the IT Systems of most important External Agencies to secure information.

(b) **Amendments to Companies Act No 7 of 2007:**

The provisions will be incorporated to the Companies Act to expand the present requirement in obtaining the certificate issued by the Commissioner General of Inland Revenue as part of the annual return under the Companies Act, in obtaining a tax clearance certificate by a company before effecting the liquidation or any change such as amalgamation, merger, re-structuring etc.

The present provisions in the Ninth Schedule to the Companies Act which sets out the present preferential claims of default tax of one year will be expanded to 5 years with the commencement of liquidation.

(The Companies Act will be amended.)

(c) **Secrecy Provisions:**

The restriction in the present provisions will be removed enabling dissemination of specific information to connected Government Institutions such as the Department of Customs, the Department of Census, and the Department of Sri Lanka Police etc. whenever, necessary in the course of carrying out official duties.

Provisions will be incorporated to publish the list of inactive VAT registrations in the IRD Web-site subject to any adjustment if activated later, in order to avoid issuing tax invoices or misuse of the registration for any other purposes.

(Section 209 of the Inland Revenue Act and the corresponding provisions of the other Acts will be amended.)

- (d) **Approved accountants and authorized representatives :**
The rules and regulations applicable to Approved Accountants and Authorized Representatives will be amended to upgrade the quality and the standards of the services and to be in a more transparent manner with the present requirements of the IFRS Guidelines and Code of Ethics relating to such professions.

(Section 107 and the other relevant provisions of the Inland Revenue Act will be amended).

- (e) *New posts of officers based on the new Service Minute of the Inland Revenue Service will be incorporated in the respective enactments.*

(Section 217 of the Inland Revenue Act will be amended).

- (f) **Default Tax Recovery Act**
Relevant provisions in the Inland Revenue Act relating to the recovery of taxes will be introduced to the Default Tax Recovery Act, in order to strengthen the recovery of process.

{Default Tax (Special Provisions) Act No 16 of 2010 will be amended}

- (g) **Economic Service Charge Act**
The time bar provisions relating to ESC will be made similar to the provisions of the Inland Revenue Act. (ESC Act No 13 of 2006 will be amended)

15 **Insurance Industry**

The one-off transaction relating to segregation of composite insurance companies as required by section 53 of the Regulation of Insurance Industry (Amendment) Act No 3 of 2011, will be treated as a continuation of the business and the tax neutrality position will be provided on the same basis for life insurance and general insurance with regard to the following:

- (a) *Carried forward losses of the existing business ;*
- (b) *Set off of unabsorbed VAT;*
- (c) *Set off of ESC;*
- (d) *Transfer of assets and the continuation of the claimability of depreciation allowances.*

(Relevant provisions will be incorporated to the Inland Revenue Act, VAT Act , and ESC Act where necessary)

16 **Technical Rectifications**

Necessary adjustments will be made to the respective provisions of the Inland Revenue Act No 10 of 2006, Value Added Tax Act, Nation Building Tax Act No 9 of 2009, Economic Service Charge Act No 13 of 2006, Finance (Amendment) Acts, Default Tax (Special Provisions) Act No 16 of 2010, Telecommunication Levy Act No 21 of 2011, Ports and Airports Development Levy Act No 18 of 2011 and Tax Appeals Commission Act No 23 of 2011 to rectify certain ambiguities and unintended effects (including differences in translations).

17 **Effective dates of proposals**

Unless stated otherwise, the proposals in relation to :

- (i) *Income Tax and Economic Service Charge will take effect commencing from April 1, 2014.*
- (ii) *Value Added Tax, Telecommunication Levy Act, and Nation Building Tax, will be implemented with effect from January 1, 2014.*
- (iii) *Cess, Ports and Airports Development Levy, Customs Duty, Excise (Special Provisions) and Special Commodity Levy will take effect immediately.*