KPMG

Budget Analysis 2019

Tax proposals

March 2019

Foreword

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05th March 2019

For the clients of KPMG in Sri Lanka

The budget proposals for 2019 were presented in Parliament today, titled **'Empower the People, Nurturing the Poor'** focusing on sustainable development strategy, whilst taking "Enterprise Sri Lanka" forward, a strategy to re-awaken the entrepreneurial spirit of Sri Lanka.

This publication has been compiled on a high-level review of the proposals in the limited time available to us. We may also emphasize that these proposals need to be enacted by Parliament for legal enforcement.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

Chartered Accountants

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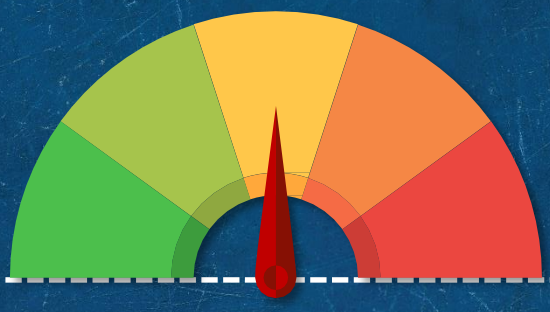

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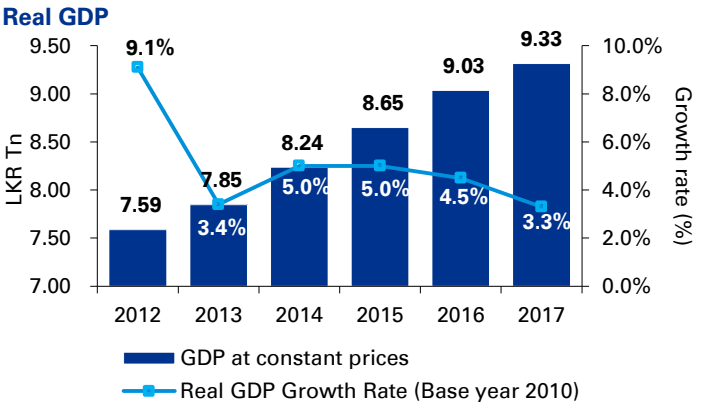
Economic Indicators

"The Sri Lankan economy has been resilient to recent internal shocks, such as increased political uncertainty; and external shocks, such as broad-based strengthening of the USD.

Growth in the economy

The Sri Lankan economy grew at a lackluster 3.3% in real terms to reach LKR 9.33 Tn in 2017, compared to 4.5% recorded the year before. Adverse weather conditions that prevailed during the year contributed mainly towards slower growth. The rationalization of government expenditure and the tight monetary policy stance during the period also affected the economic growth in 2017.



Source: Department of Census and Statistics

For the 9ME 2018 period, the economy expanded at 3.3% in real terms compared to 3.2% recorded for the corresponding period the year before. Higher growth witnessed in the 1H 2018 at 3.6% was propelled by the positive momentum in the services and agricultural sectors negated the subdued growth recorded in the third quarter 2018 at 2.9%.

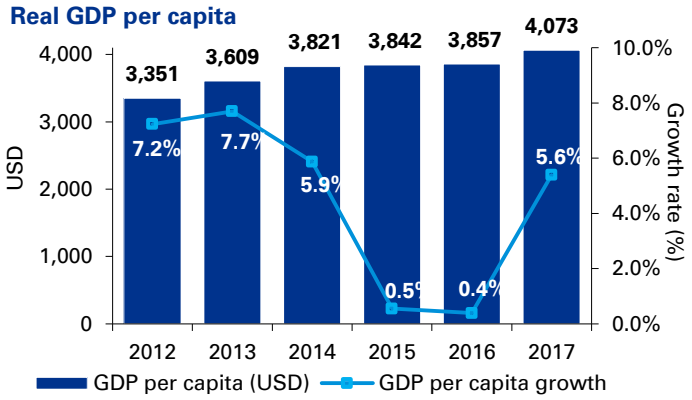
Central Bank of Sri Lanka (CBSL) that growth in the economy will continue to remain subdued during the fourth quarter of 2018. Further, CBSL expects economic growth to be modest in 2019. However, the economy is expected to gradually reach its potential in the medium term benefitting from the low inflation environment, competitive exchange rate and appropriate policies to support investment.

The World Bank expects Sri Lanka to grow by 3.9% in 2018 and continue to grow at a subdued 4.0% - 4.1% going forward. The Asian Development Bank expects a similar 3.8% growth in 2018 and there after a 4.5% growth is expected in 2019.

GDP per capita to grow further

GDP per capita was recorded at USD 4,073 in 2017 growing at 5.6% on an YoY basis. The Government of Sri Lanka (GoSL) targets the GDP per capita to increase to USD 5,000 by 2020, in a bid to drive Sri Lanka's status towards being an upper-middle income country.

Source: Vision 2025



Source: CBSL

Sector wise contribution to GDP in 2017

In 2017, agriculture, industry and services sectors contributed their share to the GDP at 6.9%, 26.8% and 56.8% respectively.

- Agricultural activities reported a negative growth of 0.8% in 2017 compared to a negative growth of 3.8% recorded in 2016, resulting from the impact of adverse weather conditions that prevailed during the period.
- Industrial activities recorded a growth of 3.9% in 2017 compared to 5.8% recorded in 2016. Under the sub-activities, construction activities grew by 3.1%, manufacturing by 3.9% and mining and quarrying by 5.9%.
- Services activities, with the highest contribution to the overall GDP grew at 3.2% in 2017 compared to 4.7% in 2016.

The World Bank expects Sri Lanka to grow by 3.9% in 2018 and continue to grow at a subdued 4.0% - 4.1% going forward. The Asian Development Bank expects a similar 3.8% growth in 2018 and a 4.5% growth in 2019.

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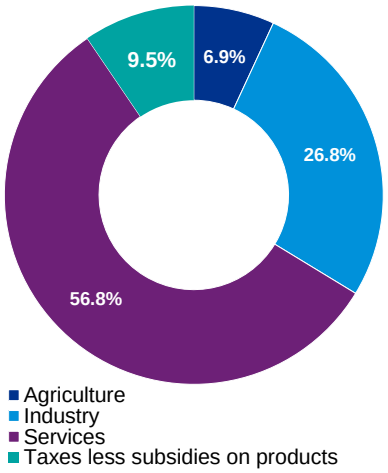
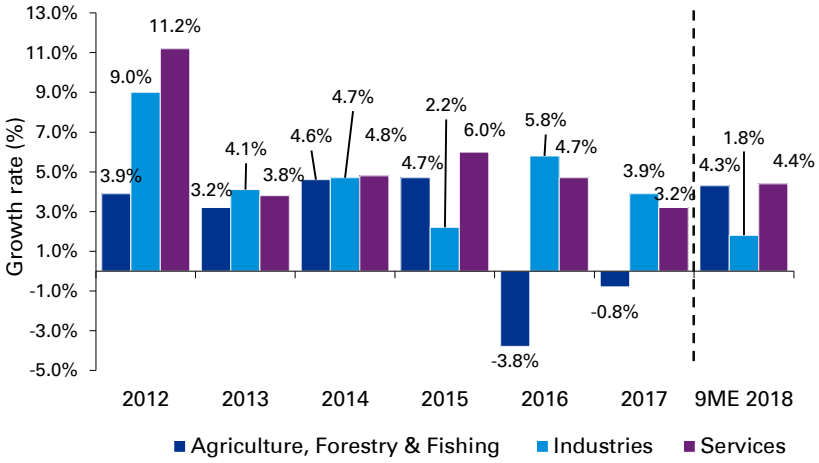
Sector wise contribution to GDP - 2017



Source: Department of Census and Statistics

Sector-wise Growth



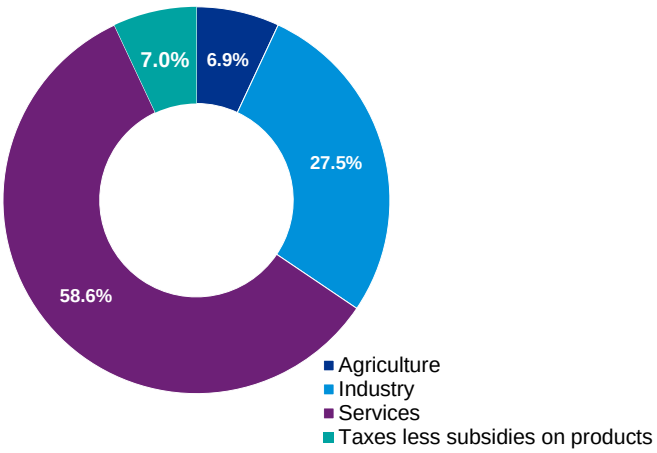
Source: Department of Census and Statistics

Sector wise contribution to GDP for the 9ME 2018

For the 9ME 2018 period, agriculture, industry and services sectors contributed to the GDP in real terms at 6.9%, 27.5% and 58.6% respectively.

- A 4.3% growth (in 9ME 2018) in agricultural activities recorded due to the recovery in the sector from favorable weather conditions in comparison to the 3.5% contraction recorded for the corresponding period the year before.
- Industrial activities grew at a subdued 1.8% (in 9ME 2018) compared to 7.2% the year before. The lower growth in manufacturing activities, decline in construction activities and mining and quarrying activities led to the lower growth in industrial activities during the period.
- Services activities recorded a growth of 4.4% (in 9ME 2018) for the period compared to 9.2% the year before. Lower growth in majority of services related sub-activities contributed to the subdued growth for the period.

Sector wise contribution to GDP - 9ME 2018



Source: Department of Census and Statistics

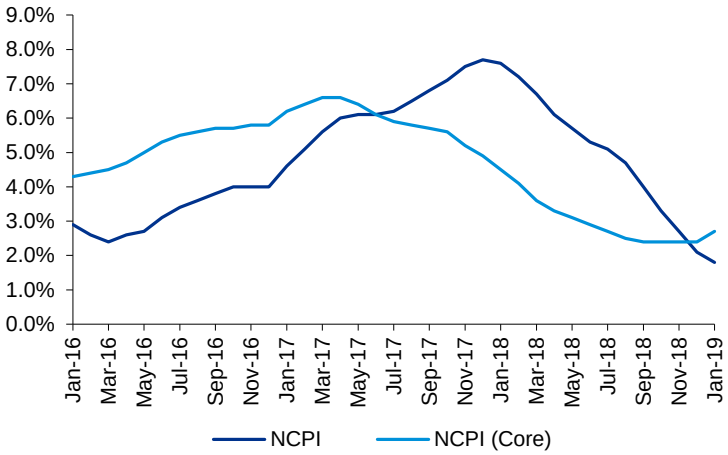
Inflation to stabilize

The annual average headline inflation as measured by the change in the National Consumer Price Index ("NCPI", 2013 =100) decreased to 2.1% in December 2018 compared to 7.7% in December 2017. The movement of the general price level was largely in line with the price movements of the food category, while the movement of the prices of items in the non-food category also contributed to a certain extent.

The annual average core inflation as measured by the change in the National Consumer Price Index (Core) in December 2018 decreased to 2.4% compared to 4.9% in December 2017.

The CBSL aims to stabilize inflation at mid single digit levels in the medium term to enable the economy to reach its potential.

Annual average percentage change in NCPI



Source: Department of Census and Statistics

The GoSL expects that the inflation will continue to remain stable at mid single digits.

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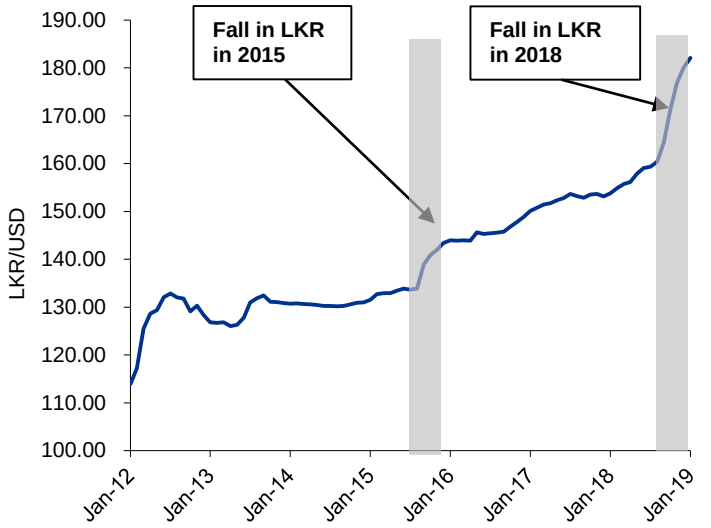
Economic Indicators

Movement in the exchange rate

The LKR depreciated substantially, recording a decrease in value of 17.1% against the USD during the year 2018. The LKR faced considerable downward pressure primarily in the last quarter of 2018 mainly due to the following factors,

- Broad based strengthening of the USD globally, backed by hikes in Federal Reserve policy rates and robust economy in the US.
- Net outflows of foreign investment from the government securities market and the Colombo Stock Exchange.
- Tight conditions in global markets and excessive speculation further exerted pressure on the exchange rate.
- Weakening of the trade balance, as a result of import expenditure overtaking export earnings. Slowdown in workers remittances further contributed to the falling LKR. However, earnings from tourism cushioned the balance of payments against the comprehensive negative impact of the trade deficit.

Movement in LKR/USD



Source: CBSL

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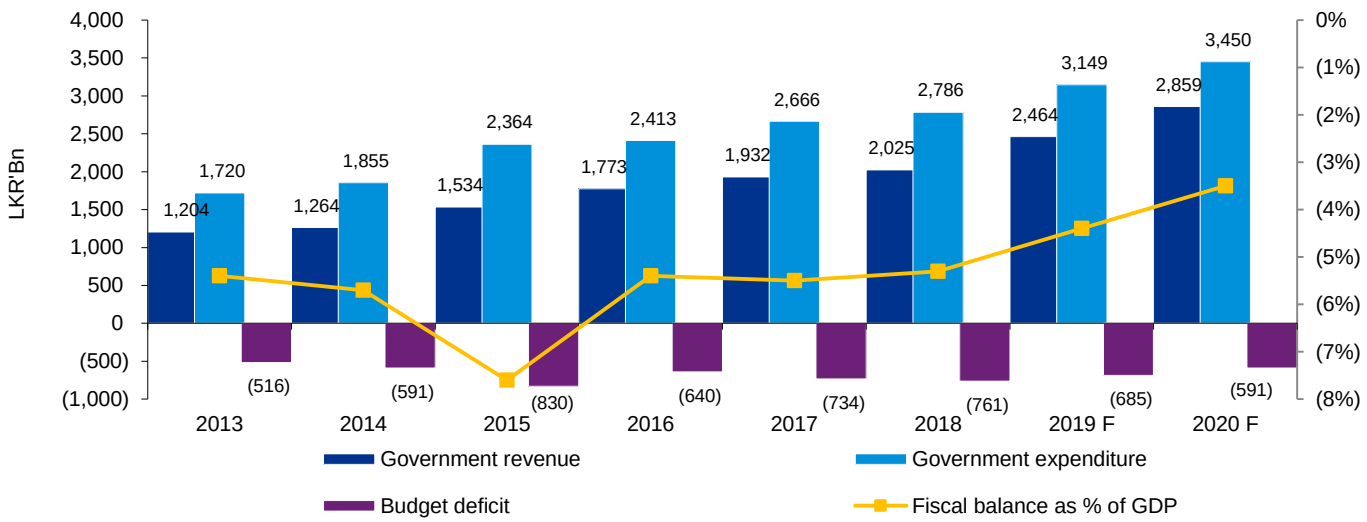
Fiscal Policy on track

Fiscal balance



Source: Ministry of Finance

The overall budget deficit as a percentage of GDP increased to 5.5% in 2017, compared to 5.4% recorded in the previous year. Due to lower than expected revenue collection during 2018, the GoSL expects a lower value to be achieved.

As part of long term structural reform agreed with IMF, the GoSL is committed to achieve a budget deficit to GDP of 3.5% by 2020.

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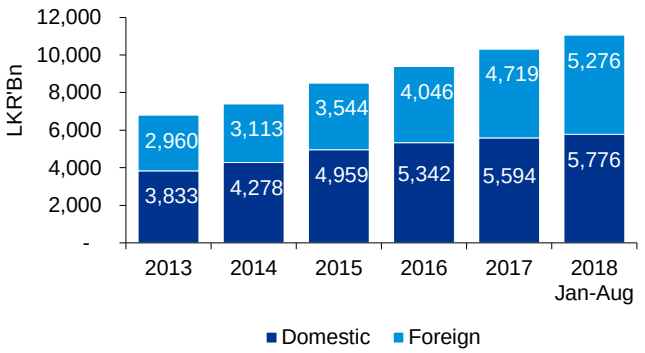
Budget 2019 aims to achieve a primary surplus of 1.5% of GDP and a fiscal deficit of 3.5% of GDP, which will be in compliance with IMF's special fiscal requirement.
In February 2018, GoSL renegotiated with IMF to resume the remainder of the Extended Fund Facility (EFF) by one year conditional to achievement of the said requirements.

52.6% of the outstanding budget deficit during the 8ME 2018, was funded through foreign sources in comparison to 47.4% in 2017, indicating higher dependence on foreign borrowings.

Central Government debt



Source: CBSL

Overall Government debt position increased by LKR 740 Bn to reach LKR 11,052 Bn in August 2018, which was underpinned by the ongoing budget deficit as well as the notable currency depreciation witnessed during the year. Hence, the estimated debt to GDP is 77.4% as at the aforementioned period.

The GoSL plans to reduce the Government debt as a percentage of GDP to 69.0% by 2021.

Notable inflow of debt funding was observed through various USD debt raising to fund government expenses including repayment of existing state debt. Further the government received five tranches (USD 1,014 Mn) of IMF's EFF through which GoSL aims to reduce the fiscal deficit, rebuild foreign exchange reserves, and introduce a simpler and equitable tax system in order create macroeconomic stability and promote inclusive growth.

Fiscal Policy on track – Income and expenditure

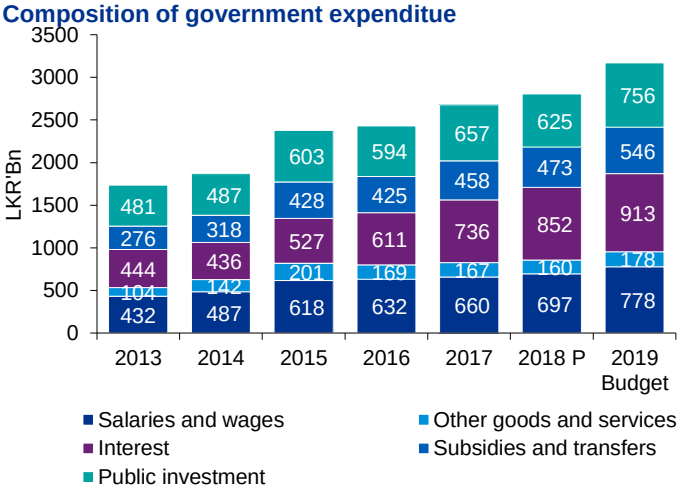
Composition of government revenue

Source: Budget Speech 2018 & 2019

The tax revenue during the 8ME 2018 increased by 3.5% to LKR 1,134 Bn, compared to 17.5% growth in the prior year, driven by the government's ongoing revenue based fiscal consolidation process. Increase in tax revenue was mainly achieved through measures such as increasing tax rates, broadening tax base, restructuring tax exemptions and concessions and strengthening tax administration.

While the GoSL expects to earn a total tax revenue of LKR 1,712 Bn in 2018, this target is expected to grow to LKR 2,077 in 2019.

Composition of government expenditue



Source: Budget Speech 2018 and 2019

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Economic Indicators

Recurring expenditure as a % of GDP increased to 7.0% to LKR 1,384 Bn in the 8ME 2018, in comparison to 10.0% in 2017 amounting to LKR 1,294 Bn. The budget proposes a YoY increase in the same of 10.6% amounting to 2,415 Bn, leading to higher growth in the economy.

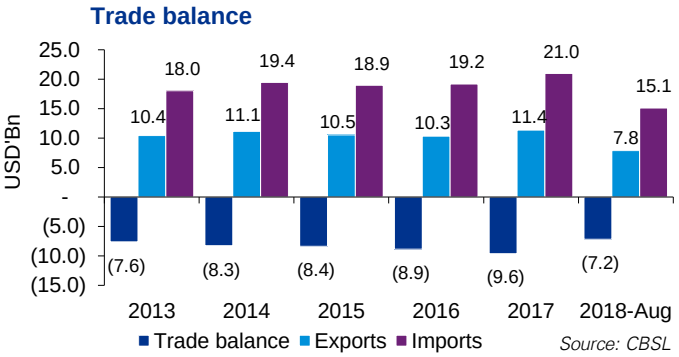
Capital expenditure and net lending declined by 6.7% during the 8ME 2018.
The fiscal budget for 2019 has allocated LKR 756 Bn in capital expenditure, recording a YoY increase of 21.0%.

Increase in imposition of direct taxation (backed by Implementation of the Inland Revenue Act 2017) coupled with streamlining of government expenditure is expected to narrow the budget deficit.

The Fiscal Management (Responsibility) Act No.3 of 2003 is to be amended, with a view to strengthen Fiscal rules with legally binding Fiscal targets.

GoSL targets to reduce the budget deficit to 3.5% of GDP by 2022. In this process we expect excessive government spending to be managed which in turn will curtail inflation pressures as well

Trade balance continues to widen



The trade deficit in Sri Lanka witnessed a notable increase of 17.7% during the 8ME 2018, reaching a net value of USD 7,240 Mn, against the USD 6,184 Mn recorded in the corresponding period in 2017. This was primarily caused by the depreciation of the LKR against the USD as well as the higher expenditure on imports such as fuel, gold and personal vehicles.

Export earnings during the said period indicated a slower YoY growth of 5.8% (USD 7,842 Mn), in comparison to the 7.6% growth reported during the same period in 2017. The increase was primarily stemming from effects of restoration of EU's GSP plus concessions, higher commodity prices in the world market, as well as flexible exchange rates policies maintained by the CBSL.

It is expected that the reauthorization of GSP program offered by USA till 2020 is likely to further boost the future export earnings for the country

The highest contribution to export performance in 8ME 2018 were made by industrial exports which accounted for 78.0% of the total earnings. Related earnings grew by 9.4% YoY to USD 6,085 Mn.

The remaining exports were mainly in relation to agricultural exports which declined by 5.0% to USD 1,723 Mn due to poor performance in majority of agricultural sub sectors.

USA, UK, EU and India had remained key export destinations of the country over the past five year period.

Imports outlook

Country's import expenditure increased by 10.9% during the 8ME 2018 (USD 15,083 Mn) reporting a marginally higher performance against the 9.4% increase recorded in the corresponding period in 2017. The rise in imports were mainly caused by higher imports of fuel, vehicles (personal use) and textiles.

The highest contribution to import performance in 8ME 2018 were made by intermediate goods (including fuel) which accounted for 55.0% of the total expenditure. Related expenditure grew by 14.9% YoY to USD 8,357 Mn in comparison to the corresponding period in 2017, which was mainly due to higher import volumes and increased prices of fuel in the international market.

Due to higher fuel imports, India regained its position as the main origin of imports post 2017, surpassing the position of China.

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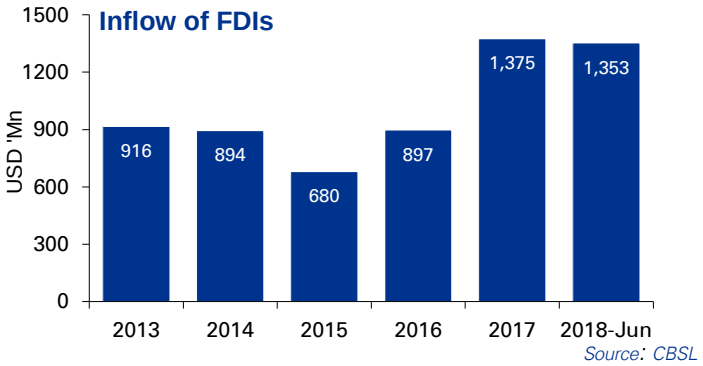
The 2019 budget continued to promote exporter activities in order to build foreign reserves

Capital flows on the rise



Year 2017 reported the highest ever FDI received by the country, which witnessed a record inflow amounting to USD 1,913 Mn in funds. This was an increase of ~77.5% in comparison with the funds received in 2016 (USD 1,078 Mn) and was primarily aimed at funding large scale government projects; The Port City Project and Hambanthota Port Project. The telecommunication sector and several other mixed development projects also reported notable increase in FDIs during this period.

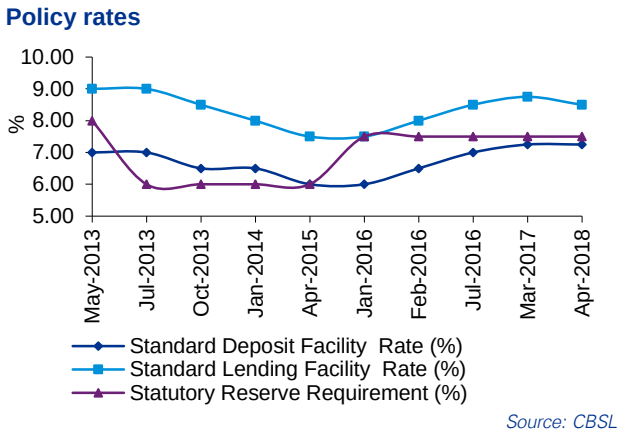
Inflow of FDIs during 1H 2018 continued the momentum created in 2017, recording a total inflow of USD 1,353 Mn, compared to USD 785 Mn recorded in the corresponding period in 2017.

As part of GoSL's ambitious long term strategic goals under Vision 2025, a target FDI of USD 5.0 Bn in expected to be sourced to Sri Lanka by 2025.

Although debt security market exhibited notable foreign investor divestments in 2016, following fears of US Fed rate hikes, the latter part of 2017 witnessed a notable inflow to the country, restoring investor confidence in the market.

Significant foreign exchange outflows were noted towards the latter part of 2018 due to tight global financial conditions as well as strengthening USD. Such a situation resulted in a notable depreciation in LKR, along with many emerging economies. This, along with the increased political uncertainty further dampened the potential future inflow of foreign funds.

Concluding tightening monetary policy



A relatively stable policy was maintained by CBSL in order to create a conducive macro economic environment in the country. The tight monetary policy followed by CBSL since 2015 was concluded in April 2018, with lowering of the standard lending facility rate (SLF) by 25 basis points.

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Key Tax Proposals

Direct Taxes

Economic Service Charge

• ESC to be imposed on all imports

In terms of section 2 of the ESC Law, ESC is charged at a rate of 0.5%, inter alia, on the import of specified goods into Sri Lanka, mainly representing goods subject to the Special Commodity Levy, motor vehicles and gold.

It has now been proposed in the Budget to impose ESC on all imports into Sri Lanka, other than capital goods prescribed by the Minister of Finance.

ESC was imposed at the point of import as a mechanism to collect the tax upfront, so as to prevent the leakage of tax revenues. The ESC so collected was subsequently granted to the importer as credit when the importer was liable to pay the said tax on turnover on the sale of goods so imported.

This proposal seeks to further strengthen enforcement of ESC by widening the collection of the upfront tax.

• ESC base for imports

Presently, ESC is imposed on the aggregate of cost, insurance and freight (CIF) value of goods imported into Sri Lanka. In terms of the proposal, this base is to be enhanced to reflect the CIF value + Customs duty, Cess, PAL and SCL payable in respect of such goods imported. Accordingly, the effective ESC collected at the point of import would increase.

• Rate of tax applicable to export of goods or services

The ESC is imposed at the rate of 0.5% of "turnover" arising to any business. It has been proposed to revise the rate applicable to turnover arising from the export of goods and services to 0.25%. The Minister in his Budget Speech, intimated that relief was targeted at the export, IT and tourism sectors.

ESC is currently available as income tax credit for a period of 3 years and any un-expired balance has to be written off.

Since profits from the above named sectors are liable to tax at a concessionary rate of 14%, these sectors generally have to write off un-absorbed ESC credits since 0.5% of turnover is in excess of their tax liability.

Hence the proposal would provide relief to these sectors by effectively reducing their tax costs.

• Expansion of the term "distributor"

The ESC Law has excluded specified distributors from chargeability to the said tax. As the law stands now, a "distributor" for this purpose, is any person appointed by the manufacturer or producer to sell goods at prices specified by the said persons in the wholesale market.

The proposal seeks to expand the scope of a "distributor" to cover any person appointed by even an importer, for sale of goods in the wholesale market. This would provide relief to distributors of imported goods, since such person would have otherwise had to pay ESC of 0.5% of gross turnover, which would be excessive in comparison to any income tax liability that could arise on the margin retained by the said distributor.

Effective Date – 1st June 2019

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Income Tax

• Exemptions

Securities

Income accruing to non-resident persons on sovereign bonds denominated in local or foreign currency is to be exempt. Presently, the exemption is available only on interest or discount accruing to any non-resident person on foreign currency denominated sovereign bonds.

Interest income accruing to a resident person on foreign currency denominated sovereign bonds, including SLDB, will be exempted from income tax. Similar exemption was available prior to 01 April 2018, and was removed with the introduction of the Inland Revenue Act No. 24 of 2017. The proposal seeks to reintroduce same, as concerns had been expressed by investors that at the time the bonds were offered, prospectus had intimated that the interest was free of tax.

Foreign currency accounts

Interest income earned by any person on NRFC and RFC accounts will be exempted from income tax for 5 years. Under the Foreign Exchange Act No. 12 of 2017, a new account called PFCA was introduced by consolidating NRFC, RFC and other accounts. Hence, it is likely that interest accruing on a PFCA would be eligible to this exemption.

Interest accruing to Minors

Interest income earned up to Rs. 5,000 per month on Minors' accounts maintained in a financial institution, is to be exempt.

Interest arising to a person outside Sri Lanka

Interest on loans accruing to a person outside Sri Lanka is to be exempt from income tax. However, the exemption will not apply in relation to a loan granted by a non-resident company to a group entity in Sri Lanka. This proposal seeks to conditionally reintroduce the exemption that was available prior to 01 April 2018. Currently, such interest is subject to WHT at 5%.

• Investment incentives

BOI Projects

Incentives have been proposed for large scale BOI approved projects, that invests into depreciable assets (other than intangible assets). A deduction, when determining profits, is to be granted as a percentage of the actual expenditure incurred on depreciable assets (other than intangible assets) over a period of 10 years from commencement of commercial operations.

The proposal intimates that the deduction is in addition to the capital allowance that the project would be entitled to claim, which is similar to the scheme presently available for investments into new projects. The incentive is dependent on investment and is as follows:

Value of investment	Deduction granted
USD 50 Mn to USD 100 Mn	100%
USD 100 Mn or more	150%

In the event the investment exceeds USD 1 Bn, the following additional incentives are to be granted:

- Extended period of 25 years for the deduction of unrelieved losses;
- Dividends distributed out of profits sheltered by enhanced capital allowances, to a non-resident, will be exempt;
- Employment income earned by expatriate employees would be exempt from WHT, during the period the profits are sheltered by enhanced capital allowances.

In addition to the aforementioned income tax concessions, exemptions from NBT, PAL, Cess and Customs Duty, are to be granted during the project implementation period.

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Key Tax Proposals

Direct Taxes

The proposal intimates that exemptions from NBT, PAL, Cess and Customs Duty will be granted to the residential component of Mixed Development Projects, insofar as the investment criteria in relation to depreciable assets (other than intangible assets) i.e. the balance project, is met.

This relief is necessary as it is not possible to identify investment into the residential component (trading stock) and other (capital assets) at the time of construction.

Guidelines are to be issued providing clarity on how the concessions are to be claimed.

It has been intimated that the aforementioned concessions would be granted under the IR Act by the BOI. The BOI would extend the concessions via an agreement and the relevant laws would be amended to enable same.

Existing businesses

Accelerated depreciation allowance is to be granted on expansion of existing businesses, in place of the regular depreciation allowance.

• Other incentives

IT Sector

Presently, a company predominantly engaged in the business of IT services is entitled to claim an additional deduction equal to 35% of the total salary cost, provided such company satisfies the condition of having at least 50 employees throughout the year. It has been proposed to remove such condition for claiming the concession.

Enhanced deduction for salary costs

An additional deduction of 50% of the salary cost of an employee, who has been granted maternity leave of 3 months, is to be granted to the employer, subject to a maximum of Rs. 20,000 per month per employee. A 100% deduction will be granted for the 4th month of maternity leave, if such leave is granted. This concession will apply for a period of 5 years.

• Application of the concessionary rate of tax

Presently, the concessionary rate of 14% is available to a company which is predominantly engaged in specified business activities. For this purpose, the term "predominantly" has been defined to mean a status where more than 80% or more of "gross income" accrues from the qualifying activity.

It has been proposed to define the term "gross income" to refer to only business income of the qualifying activity and especially to exclude investment income.

Under the prevailing law, in the event a company derives more than 80% of income from the qualifying activity, the company is eligible to pay tax at the concessionary rate of 14% on the entire taxable income of the company. The proposal seeks to limit the concessionary rate only to profits of the activity eligible to the concessionary rate. Income from other sources is to be taxed at the standard rate.

• Withholding tax on royalty and rent

Royalty and rent payments made to a resident individual to be exempt from WHT if such payment does not exceed Rs. 50,000 per month or Rs. 500,000 per year of assessment.

Effective date

The aforementioned proposals are to be effective from 01 April 2019.

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Key Tax Proposals

Indirect Taxes

Condominium Housing Units

VAT will be charged on the supply of condominium housing units w.e.f 1 April 2019 as mentioned in the last budget proposal. The Proposal states where "Deed of Agreement" relating to such supply is not executed prior to 1 April 2019", such VAT will be applicable. Whist the phrase "Deed of Agreement" is open for interpretation, i.e. Agreement to sell or Transfer Deed. The exact VAT impact would depend upon the manner in which the proposal is legislated in the context of the "supply of goods" as defined in the VAT Act as well as the "time of supply" which is elaborated at Section 4 of the said Act.

New Definitions

The two terms "locally produced rice products" and "pharmaceutical machinery" will be provided with definitions in order to achieve clarity and certainty. At present the two terms are not defined in the VAT Act. VAT liability at the point of importation of pharmaceutical machinery is deferred under the VAT Act. The supply of locally produced rice products containing rice produced in Sri Lanka is exempt under the said Act.

Empowerment of the Minister

The Proposal states the Minister will be empowered to prescribe the "basis of chargeability" of VAT on certain good as may be determined by the Minister. The stated rationale of the proposal is the protection of revenue. One may await the exact legal wording to be used in the Amending Act for this purpose as imposition of any tax is addressed in the Constitution itself. The proposal at this stage is ambiguous to comment upon.

In the past budget speeches, introduction of new exemptions and the scrapping of existing exemptions have been the norm. Perhaps this is the first budget where there is a deviation from the trend. Overall the Budget 2019 has no substantial proposals pertaining to VAT barring the proposal regarding the empowerment of the Minister which may require analysis with the passage of time when the bill is issued.

Piece rate on Garments

The currently applicable rate of Rs. 75/- will be increased to Rs.100/- on the domestic sale of certain garments by BOI companies.

Prior to 1 November 2016, the applicable VAT rate on such domestic sales was Rs.25 per unit. The rate was increased to Rs. 75 after 1 November 2016.

Effective Date

The above proposals will be effective from 1 June 2019.

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Nation Building Tax

The NBT proposals impact five areas namely gems, cigarettes, construction, debit and credit cards and the leisure sector.

• Rate

The usage of debit and credit cards for foreign payments from 1 June 2019 would be liable for NBT at the rate of 3.5% in substitution of the existing stamp duty of Rs. 25 for every Rs. 1000 or part thereof (2.5%). The proposal introduced an additional rate to the NBT regime where the applicable rate at present is 2%. At present NBT is levied on the "Turnover" of chargeable persons as well as "Value Addition" in the case of financial service providers. Clarity is required in relation to the charge and mode of collection of the proposed 3.5% NBT.

• New Exemptions

NBT exemption will be introduced in favour of the main construction contractors. The main contractor was exempt from NBT upto 1 August 2017 and was made liable thereafter. More clarity is required as to the nature of infrastructure project which will qualify under above proposal.

Lapidary service providers registered with the Gem and Jewellery Authority will be able to enjoy the NBT exemption applicable to a person who import rough gems for cutting, polishing and re exporting.

Tourist hotels registered with the SLTDA will enjoy the withdrawal of NBT on foreign currency receipts. At present through there is a NBT exemption for service providers earning foreign currency, it is conditional upon the recipient of such service being a person outside Sri Lanka and utilizing such services also outside Sri Lanka.

NBT will be removed on the importation of Lucerne (alfalfa) meal and pellets with the view of promoting livestock industry.

NBT applicable on local value addition of palm oil will be exempt and Special Commodity Levy will be adjusted on the import of palm oil.

NBT will be exempt on Large Scale Projects (investment above USD 100mn) and mid-size investments (over USD 50mn to USD 100mn) during project implementation or construction period until the commencement of commercial operations. The proposal implies NBT on importation. The Law should be worded specifying whether it is only for importation in order to avoid ambiguity.

• Removal of Exemptions

Currently applicable exemption on the manufacture of cigarettes will be removed.

The current exemption on importation of cigarettes identified under specified HS Code prevails.

• Tax Base

NBT Act refers to the ESC Act for the definition of term "distributor". The definition of term "distributor" under ESC Act will be changed to include any person or partnership, appointed by an importer of any goods for the sale in the wholesale market.

Due to the expansion of the term "distributor" the aforementioned category of persons will enjoy a reduction in the liable turnover to 25% and thereby a reduction in the NBT liability.

Effective Date

The above proposals will be effective from 1 June 2019.

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Key Tax Proposals

Indirect Taxes

Excise Duty (Excise Ordinance) Rate

Excise duty on Cigarettes, which are more than 60 mm, will be increased by 12%, resulting in an increase of Rs.5 per stick on average.

It is proposed to revise the Excise Duty on hard liquor manufactured locally by 8% and malt liquor by 12% based on indexation, where the minimum annual duty increase is according to an index capturing annual inflation and GDP growth. Excise duty on Special Arrack remains without change.

Revision of Excise Duty on liquor manufactured locally is tabulated below;

Type	Existing Rate (Rs. Per litre)	Proposed Rate (Rs. Per litre)
Special arrack	3,300	No change
Other arrack	3,300	3,550
Country made foreign liquor	3,300	3,550
Beer less than 5%	2,400	2,700
Beer more than 5%	2,400	2,700
Wine- local materials	100 Per bulk litre	600 Absolute litre

It is proposed to charge the Excise Duty on the locally manufactures wine (other than using of local materials) at Rs. 2,700 per liter.

The Excise Duty rate of imported liquor will be revised as follows;

Type	Proposed Rate (Rs. Per bulk litre)
Malt Liquor (Beer)	55
Wine	110
Other liquor	215

The above proposals will take effect immediately.

Embarkation Levy

Embarkation Levy has been increased from USD 50 to USD 60 per passenger w.e.f 1 April 2019. Embarkation Levy was introduced via the Finance Act No. 25 of 2003.

Passport Fees

The fees in relation to passports will be revised as follows with effect from 1 April 2019:

Description	Existing Fee per Passport (Rs.)	Proposed Fee per Passport (Rs.)
Alteration	500	1,000
One day Service	10,000	15,000
Normal Service	3,000	3,500

Government Agencies – Fees/Charges

The fees and charges of Government agencies which have not been revised since 2016 will be revised by 15%.

Toll Road Charges

The current toll on expressways will be increased by Rs. 100/- during peak hours with effect from 1 April 2019.

International Telecommunication Operators Levy

This levy will be removed w.e.f 1 June 2019. The levy was introduced w.e.f 15 October 2010 by the Extra Ordinary Gazette No. 1662/1 issued under the Finance Act No. 11 of 2004.

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Betting & Gaming Levy

Pursuant to the Budget Proposals, the Tax Office may stand to increase the collection of revenue from the Betting and Gaming industry dependent upon the revenue collection from the Annual Leve on carrying on the business of playing Rudjino. The Annual levy on gaming, playing Rudjino, Casino Entrance Levy and Levy on Gross Collection have been revised.

The Annual Levy on the business of gaming other than playing Rudjino will be increased to Rs. 400 Million from Rs. 200 million while the Annual Levy on carrying on the business of playing Rudjino has been significantly reduced to Rs. 1 million from Rs. 200 million. This proposal will take effect from 1 April 2019.

The Casino Entrance Levy will be reduced to USD 50 from USD 100 per person. The Casino Entry Levy of USD 100 was initially proposed in the Budget 2015 and enacted under the Betting and Gaming Amendment Act No. 14 of 2015. This proposal will take effect from 1 June 2019.

The Levy on Gross Collection is revised to 15% from 10%. This proposal will take effect from 1 April 2019.

Carbon Tax

The Carbon Tax was proposed in the Budget Proposal 2018 and enacted via the Finance Act No. 35 of 2018 w.e.f 1 January 2019. the new Budget Proposal introduces ceiling on the Carbon Tax payable on commercial vehicles. A definition is required for the term "Commercial Vehicle" to eliminate any ambiguity. At present the passenger buses are subject to Carbon Tax at flat rates of Rs. 1000/-, Rs. 2000/- and Rs. 3,000/- depending on the age of the vehicle, i.e. less than 5 years, 5 – 10 years and over 10 years.

Fuel Type	Less than 5 years	5 to 10 years	Over 10 years
Hybrid (Petrol/ Diesel)	25 cts per cm^3 or Rs. 3,500/= whichever is lower	50 cts per cm^3 Rs. 5,500/= whichever is lower	Rs. 1 per cm^3 or Rs. 7,500/= whichever is lower
Fuel (Petrol/ Diesel)	50 cts per cm^3 or Rs. 3,500/= whichever is lower	Rs. 1 per cm^3 or Rs. 5,500/= whichever is lower	Rs. 1.50 per cm^3 or Rs. 7,500 whichever is lower

The above proposal will take effect from 1 June 2019

Luxury Tax on Motor Vehicles

Luxury Tax was introduced in substitution of the Annual Luxury Motor Vehicle Levy in the Budget Proposal 2018 and enacted via the Finance Act No. 35 of 2018. Though the rates were provided in the Budget Proposal 2018, the enacting Finance Act did not encompass such rates and the Act had a provision for the rates to be prescribed. However, the Gazette prescribing the rates under the Act was not issued. This Budget Proposal specifies the rate applicable rates of the Luxury Tax on Motor Vehicles. As per the Proposal, Luxury Tax on Motor Vehicles will be applicable on the CIF Value (imported vehicles or Ex-Factory Cost (in the case of locally assembled vehicles) in excess of the Luxury tax free threshold.

Type of Vehicle	Luxury Tax free Threshold (Rs.)	Rate (Applicable on the amount exceeding the Luxury Tax free threshold)
Diesel	3.5 mn	120%
Petrol	3.5 mn	100%
Hybrid Diesel	4 mn	90%
Hybrid Petrol	4 mn	80%
Electric	6 mn	60%

The above proposal will take effect from 1 June 2019.

Vehicle Registration Number

For a fee of Rs. 1 million a person is eligible to obtain a lifetime personal vehicle registration plate number/name.

By payment of the following fees registration numbers could be reserved. This proposal will take effect from 1 June 2019.

Type of Number Plate	Existing Fee / Unit (Rs.)	Proposed Fee / Unit (Rs.)
Special Number Plate:		
Category 1 - 10,000	50,000	70,000
Category 2 - 20,000	60,000	90,000
Category 3 - 30,000	70,000	100,000
Personalized Plate with Name / Number	N/A	1,000,000

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Key Tax Proposals

Indirect Taxes

Customs Duty

- Customs Duty on undenatured ethyl alcohol will be increased to Rs. 1000 per litre.
- Customs Duty will be removed on importation of Go Karts and Go Kart tyres to facilitate promotion international sports tourism.
- The negative list in relation to Customs Duty will not apply to the Large Scale Projects (investments above USD 100 mn) and mid size investments over USD 50 mn.
- Customs Duty on the importation of machinery used in lapidaries will be reduced.
- Revision of unit rate based Custom Import Duty on selected goods including fruit drink, liquor and tobacco w.e.f 6 of March 2019.
- Proposal to introduce key amendments to the Customs Ordinance to improve trade facilitation developing appeal process and risk managements.

Cess

- It is proposed to phase out all para-tariffs over a period of 5 years starting from the para-tariffs removal in November 2017 for 1200 items. 10% of all HS codes considered to be sensitive items will not be subject to a compete para-tariffs phase out.
- Sectors such as construction, tourism and manufacturing are identified for accelerated Cess reduction program. Any intermediate goods in these sectors will have Cess reduction phased out over a period of 3 years
- Large Scale Projects (investments above USD 100mn) and mid size investments over USD 50 mn will enjoy exemption form Cess on all project related items during the project implementation period or construction period.
- Cess will be removed on importation of Go Karts and Go Kart tyres to facilitate promotion international sports tourism.
- Cess on selected items to support the refurbishment of hotels will be reduced. (Related HS codes 3924.10.10, 3924.10.90, 6505.00.10, 6505.00.90)
- Cess on imported construction material will be reduced by 30% in order to support the property development sector.
- Cess on Tendu Leaves (Beedie Leaves) will be increased from Rs. 2,500 to Rs. 3,500 per kg, w.e.f 6 March 2019.

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Cess on the following HS codes will be removed;

General Description	Related HS Codes
Birds' eggs and egg yolks, fresh, dried, cooked by steaming or by boiling in water, moulded, frozen or otherwise preserved, with or without added sugar or other sweetening matter. Egg yolks, dried.	0408.11.00 0408.91.00
Other nuts, fresh or dried, whether or not shelled or peeled. Almonds/ walnuts/ chestnuts/ Pistachios/ Macadamia nuts/ kolola nuts	0802.21.10 0802.22.00 0802.31.10 0802.32.00 0802.42.00 0802.51.00 0802.52.00 0802.62.00 0802.70.00 0802.90.10 0802.90.90
Apples, pears and quinces, fresh. Quinces	0808.40.00
Other fruit, fresh. Raspberries, blackberries, mulberries and loganberries/ white or red currants and gooseberries/ Cranberries, bilberries and other fruits of the genus Vaccinium/ Persimmons	0810.20.00 0810.30.00 0810.40.00 0810.70.00
Fruit and nuts, provisionally preserved, but unsuitable in that state for immediate consumption. Cherries	0812.10.00
Fruit, dried, mixtures of nuts or dried fruits	0813.10.00 0813.20.00 0813.30.00
Refrigerators, freezers and other refrigerating or freezing equipment, electric or other; heat pumps other than air conditioning machines of heading 84.15. used / reconditioned / other	8418.21.10 8418.21.90

Cess on following items will be revised;

General Description	Related HS Codes
Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured, and other non-alcoholic beverages, not including fruit or vegetable juices of heading 20.09.	2202.99.91 2202.99.99
Other plates, sheets, film, foil and strip, of plastics, non-cellular and not reinforced, laminated, supported or similarly combined with other materials	3920.51.91 3920.51.99 3920.63.11 3920.63.99 3920.69.91 3920.69.99
Tableware, kitchenware, other household articles and hygienic or toilet articles, of plastics	3924.10.10 3924.10.90
Hats and other headgear, hair-nets of any material, whether or not lined or trimmed, Hair- nets of any material	6505.00.10 6505.00.90
Parts and accessories of the motor vehicles of headings 87.01 to 87.05. Parts	8708.91.20 8708.91.90
Flavour enhancing preparations containing monosodium glutamate	2106.90.50
Wet wipes	3401.11.20 3401.19.20
New Pneumatic tyres of rubber	4011.10.90
Wire of Iron or non-alloy steel	7217.90.10

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Key Tax Proposals

Indirect Taxes

Excise (Special Provisions) Act

- **Excise Duty on Motor Vehicles**

Excise Duty on hearses will be revised.

Excise Duty on vehicles imported as Chassis fitted with engines will be reduced.

Excise Duty on the Single cabs will be revised.

Excise Duty on Buddy Trucks with cargo carrying capacity less than 2,000 kg will be reduced.

Excise Duty on the hybrid and electric vans will be revised to reflect the energy efficiency benefits.

Excise Duty revision on passenger vehicles will be revised as follows:

(a) Fuel Vehicles

- The below table sets out the Excise Duty increase for petrol and diesel fuel vehicles.
- Diesel Fuels vehicles up to 1800cm^3 reflects a 15% excise duty increase.
- On the other hand the percentage increase applicable to petrol fuel vehicles reflects a high percentage in the midrange vehicles (16.3% for 1000cm^3 to 1300cm^3 and 13.8% for 1300cm^3 to 1500cm^3)

Engine Capacity	Petrol Fuel (Rs. per cm^3)		Diesel Fuel (Rs. per cm^3)	
	Existing	Budget Proposal	Existing	Budget Proposal
x≤ 1000m^3 *Duty per unit	1,750 or 1,500,000*	2,000 or 1,650,000*	4,000	4,600
1000cm^3<x≤ 1300cm^3	2,750	3,200	4,000	4,600
1300cm^3<x≤ 1500cm^3	3,250	3,700	4,000	4,600
1500cm^3<x≤ 1600cm^3	4,000	4,250	5,000	5,750
1600cm^3<x≤ 1800cm^3	5,000	5,300	6,000	6,900
1800cm^3<x≤ 2000cm^3	6,000	6,350	7,000	8,000

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(b) Hybrid Vehicles

- The below table sets out the Excise Duty increase for hybrid vehicles
- In the case of hybrid petrol motor vehicles Excise Duty percentage increase varies from 14% to 16.6%.
- Hybrid petrol vehicles where engine capacity is less than 1000cm^3, reflects the highest percentage of Excise Duty increase, whilst in case of vehicles with engine capacity ranging from 1300 cm^3 to 1500$cm^3$the percentage increase of Excise Duty is 14%.
- In the case of hybrid diesel vehicles the highest percentage of Excise Duty increase could be witnessed from 1500cm^3 to 1600cm^3 range and the capacity range from 1800cm^3 to 2000cm^3.
- In the case of diesel hybrid vehicles up to 1500 cm^3 the percentage increase is only 13.3%. Overall, up to 1800 cm^3, one could observe the percentage increase of Excise Duty in the case of hybrid diesel is less than that for hybrid petrol vehicles. On the other hand, where the engine capacity is more than 1800 cm^3, the percentage increase of the Excise Duty for hybrid diesel vehicles is more than that for hybrid petrol vehicles.

Engine Capacity	Petrol Fuel (Rs. per cm^3)		Diesel Fuel (Rs. per cm^3)	
	Existing	Budget Proposal	Existing	Budget Proposal
x≤ 1000cm^3 *Duty per unit	1,250,000*	1,500,000*	3,000	3,400
1000cm^3<x≤ 1300cm^3	2,000	2,300	3,000	3,400
1300cm^3<x≤ 1500cm^3	2,500	2,850	3,000	3,400
1500cm^3<x≤ 1600cm^3	3,500	4,000	4,000	4,600
1600cm^3<x≤ 1800cm^3	4,500	5,200	5,000	5,700
1800cm^3<x≤ 2000cm^3	5,000	5,700	6,000	6,900

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Key Tax Proposals

Indirect Taxes

Excise Duty

(c) Electric Vehicles

- The below table sets out the Excise Duty increase for electric vehicles
- The Excise Duty on electric vehicles reflects an increase of 33% irrespective of the age of the vehicle where the motor power of the engine is 50kW to 100kW

Motor Power of the Engine	Less than one year		More than one year and less than three years	
	Existing	Budget Proposal	Existing	Budget Proposal
50kW<x≤ 100 kW	7,500	10,000	15,000	20,000

(d) Motor Cycles

- The below table sets out the Excise Duty revisions for motor cycles.
- The Excise Duty on motor cycles reflects an increase of 15% irrespective of engine capacity.

Engine Capacity	Rs. per cm^3	
	Existing	Proposed
x≤ $50cm^3$	5,00	575
$50cm^3$<x≤ $150cm^3$	1,000	1,150
$150cm^3$<x≤$200cm^3$	1,000	1,150
$200cm^3$<x≤$250cm^3$	1,500	1,725
$250cm^3$<x≤$350cm^3$	1,500	1,725
$350cm^3$<x≤$450cm^3$	2,000	2,300
$450cm^3$<x≤$500cm^3$	2,000	2,300
$500cm^3$<x≤$800cm^3$	2,500	2,875
$800cm^3$<x≤$1000cm^3$	2,500	2,875
$1000cm^3$<x	3,000	3,450

(e) Three Wheelers

- The below table sets out the Excise Duty revisions for three wheelers.
- In the case of petrol and diesel passenger three wheelers, a 14% to 16% increase of Excise Duty could be witnessed.
- However, electric passenger three wheelers have been barred from the Excise Duty increase.

Type	Rs. (per cm^3/per kW)	
	Existing	Budget Proposal
Petrol (cm^3)	2,100	2,400
Diesel (cm^3)	1,250	1,450
Electric (kW)	7,500	7,500
Cargo - Petrol (cm^3)	-	500
Cargo - Diesel (cm^3)	-	375
Cargo - Electric (kW)	-	7,500

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- **Excise Duty of Cigarettes**

Excise duty on Cigarettes is proposed to be revised as follows w.e.f. 6 March 2019.

Cigarette	Existing (Rs. Per 1000 sticks)	Budget proposal (Rs. Per 1000 sticks)
60-67mm	17,375	19,500
67 – 72 mm	20,500	23,000
72- 84 mm	33,550	37,580
> 84 mm	37,675	42,200

- **Excise Duty on sweetened beverages**

The exempt quantum of sugar contained in sweetened beverages has been revised as follows;

(a) Carbonated beverages - 6 grams per 100 ml has been rreduced 4 grams per 100 ml
(b) Fruit based beverages - 9 grams per 100 will be revised to 8 grams per 100 ml
(c) The excise duty rate applicable on sweetened beverages is the higher of Rs. 12 per litre or 30 cents per gram of sugar in excess of the exempt quantity. The budget proposal seeks to increase the duty rate of 30 cents to 40 cents per gram of sugar.

Excise Duty on palm oil fatty acids and Tallow fatty acids will be revised to 20%.

Excise Duty on refrigerators will be revised to 25%.

Special Commodity Levy

On import of palm Special Commodity Levy will be adjusted in lieu of the NBT applicable on local value addition.

Import/Export Duties and Levies

- **Port and Airport Development Levy**

Lapidary sector

It has been proposed to remove PAL on the importation of machinery used in lapidaries. The PAL on the uncut gems will be reduced from 7.5% to 2.5%.

The PAL will be also removed on HS Codes setout in annexure 1..

- **Excursion vessels and yachts**

It has been proposed to remove PAL on the sale of excursion vessels and yachts manufactured by any BOI company for another BOI company, which charters such vessels and yachts for its business.

- **Livestock industry**

It has been proposed to remove PAL on the importation of Lucerne (alfalfa) meal and pellets.

- **Large scale projects**

It has been proposed to import of goods exempt from PAL during project implementation or construction period for projects where investment is over USD 50 Million.

- **High tech plant and machinery and equipment**

It has been proposed to reduced PAL from 7.5% to 2.5% for HS Codes setout in annexure 2.

Effective Date – 6th March 2019

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Key Tax Proposals

Others

Strengthening tax administration

• Customs

It has been proposed to introduce certain key amendments to the Customs Law relevant to improving trade facilitation by enhancing transparency and consultation, developing appeals process and risk management.

Department of Customs is to launch the Authorized Economic Operators (AEO) Program which will provide expedited clearance for identified low risk traders and clearing agents.

• Revenue Intelligence Unit

A Revenue Intelligence Unit is to be established at Ministry of Finance for assisting the Customs Department, Inland Revenue Department and Excise Department, to broaden their revenue collection bases, increase revenue collections, and minimize leakages and evasion.

• Technical rectifications of certain laws

For purposes of streamlining revenue administration and rectification of certain ambiguities and unintended effects, necessary amendments to be made to the respective provisions of the following laws:

- Inland Revenue Act No. 24 of 2017;
- Value Added Tax Act No.14 of 2002;
- Nation Building Tax Act No. 9 of 2009;
- Economic Service Charge Act No 13 of 2006;
- Finance Acts and 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;
- Tax Appeals Commission Act No. 23 of 2011;
- Imports and Exports (Control) Act No. 1 of 1969;
- Stamp Duty (Special Provisions) Act No. 12 of 2006; and
- Land (Restriction on Alienation) Act No. 38 of 2014.

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Annexure 01

HS Code	Description
0712	Dried vegetables, whole, cut, sliced, broken or in powder, but not further prepared.
0712.20.00	- Onions - Mushrooms, wood ears (Auricularia spp.), jelly fungi (Tremella spp.) and truffles
0712.90.10	- Garlic
78.01	Unwrought lead
7801.10.00	Refined lead
84.64	Machine-tools for working stone, ceramics, concrete, asbestos-cement or like mineral materials or for cold working glass(+).
8464.10.00 8464.20.00 8464.90.00	Sawing machines Grinding or polishing machines Other

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Annexure 02

HS Heading	Description	HS Code
84.02 84.03 84.04	Steam or other vapour generating boilers, super-heated water boilers. Auxiliary plant for use with boilers or other vapour power units.	8402.11.00/ 8402.19.00/ 8402.20.00 8403.10.00/ 8403.90.00 8404.10.00/ 8404.20.00/ 8404.90.00
84.05 84.06 84.07 84.08 84.09	Producer gas or water gas generators, with or without their purifiers; acetylene gas generators and similar water process gas generators, with or without their purifiers. Steam turbines and other vapour turbines. Spark-ignition reciprocating or rotary internal combustion piston engines. Compression-ignition internal combustion piston engines (diesel or semi-diesel engines) Parts suitable for use solely or principally with the engines of heading 84.07 or 84.08	8405.10.00/ 8405.90.00 8406.82.00/ 8406.90.00 8407.10.00/ 8407.21.00/ 8407.29.00/ 8407.31.20/ 8407.31.90/ 8407.32.20/ 8407.32.90/ 8407.33.90/ 8407.34.90/ 8407.90.10/ 8407.90.90 8408.10.00/ 8408.20.10/ 8408.20.90/ 8408.90.10/ 8408.90.90 8409.91.10/ 8409.91.90

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Annexure 02

HS Heading	Description	HS Code
84.10	Hydraulic turbines, water wheels, and regulators therefor.	8410.11.00/ 8410.12.00/ 8410.13.00/ 8410.90.00
84.11	Turbo-jets, turbo-propellers and other gas turbines.	8411.11.00/ 8411.12.00/ 8411.21.00/ 8411.99.00
84.12	Other engines and motors.	8412.21.00/ 8412.29.00/ 8412.31.00/ 8412.39.00/ 8412.80.00/ 8412.90.00
84.14	Air or vacuum pumps, air or other gas compressors and fans; ventilating or recycling hoods incorporating a fan, whether or not fitted with filters.	8414.10.00/ 8414.20.00/ 8414.40.00/ 8414.51.00/ 8414.59.00/ 8414.60.00
84.16	Furnace burners for liquid fuel, for pulverized solid fuel or for gas; mechanical stokers, including their mechanical grates, mechanical ash dischargers and similar appliances.	8416.10.00/ 8416.20.00/ 8416.30.00/ 8416.90.00
84.18	Refrigerators, freezers and other refrigerating or freezing equipment, electric or other; heat pumps other than air conditioning machines of heading 84.15.	8418.10.10/ 8418.21.10/ 8418.29.10/ 8418.29.30/ 8418.29.90/ 8418.30.10/ 8418.30.30/ 8418.30.90/ 8418.40.10/ 8418.40.30/ 8418.40.90/ 8418.50.10/ 8418.69.10/ 8418.69.30/ 8418.69.50/ 8418.69.70/ 8418.91.90
84.19	Machinery, plant or laboratory equipment, for the treatment of materials.	8419.11.00/ 8419.19.00/ 8419.20.00/ 8419.32.00/ 8419.39.00/ 8419.50.00/ 8419.60.00/ 8419.81.00/ 8419.90.00

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HS Heading	Description	HS Code
84.20	Calendering or other rolling machines, other than for metals or glass, and cylinders therefor.	8420.91.00/ 8420.99.00
84.21	Centrifuges, including centrifugal dryers; filtering or purifying machinery and apparatus, for liquids or gases.	8421.11.00/ 8421.12.00/ 8421.19.10/ 8421.19.90/ 8421.21.10/ 8421.22.00/ 8421.29.10/ 8421.29.90/ 8421.31.00/ 8421.39.00/ 8421.91.00/ 8421.99.10/ 8421.99.20/ 8421.99.90
84.22	Dish washing machines; machinery for cleaning or drying bottles or other containers; machinery for filling, closing, sealing or labelling bottles, cans, boxes, bags or other containers; machinery for capsuling bottles, jars, tubes and similar containers; other packing or wrapping machinery (including heat-shrink wrapping machinery); machinery for aerating beverages (+).	8422.19.00/ 8422.90.00
84.24	Mechanical appliances for projecting, dispersing or spraying liquids or powders; fire extinguishers, whether or not charged; spray guns and similar appliances; steam or sand blasting machines and similar jet projecting machines(+).	8424.10.00/ 8424.20.00/ 8424.30.00/ 8424.41.00/ 8424.49.00/ 8424.82.00/ 8424.89.00/ 8424.90.00
84.25	Pulley tackle and hoists other than skip hoists; winches and capstans; jacks.	8425.11.00/ 8425.19.00/ 8425.31.00/ 8425.39.00/ 8425.41.00/ 8425.42.00/ 8425.49.00
84.26	Ships' derricks; cranes, including cable cranes; mobile lifting frames, straddle carriers and works trucks fitted with a crane.	8426.11.00/ 8426.12.00/ 8426.19.00/ 8426.20.00/ 8426.30.00/ 8426.41.00/ 8426.49.00/ 8426.91.00/ 8426.99.00

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Annexure 02

HS Heading	Description	HS Code
84.27	Fork-lift trucks; other work trucks fitted with lifting or handling equipment.	8427.10.00/ 8427.90.10/ 8427.90.90
84.28	Other lifting, handling, loading or unloading machinery (for example, lifts, escalators, conveyors, teleferics).	8428.20.00/ 8428.32.00/ 8428.33.00/ 8428.39.00/ 8428.40.00/ 8428.60.00/ 8428.90.00
84.29	Self-propelled bulldozers, angledozers, graders, levellers, scrapers, mechanical shovels, excavators, shovel loaders, tamping machines and road rollers.	8429.11.00/ 8429.19.00/ 8429.20.00/ 8429.40.00

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HS Heading	Description	HS Code
84.30	Other moving, grading, levelling, scraping, excavating, tamping, compacting, extracting or boring machinery, for earth, minerals or ores; pile-drivers and pile-extractors; snow-ploughs and snow-blowers.	8430.10.00/ 8430.39.00/ 8430.61.00/ 8430.69.00
84.31	Parts suitable for use solely or principally with the machinery of headings 84.25 to 84.30.	8431.10.00/ 8431.20.00/ 8431.31.00/ 8431.39.00/ 8431.41.00/ 8431.42.00/ 8431.43.00
84.32	Agricultural, horticultural or forestry machinery for soil preparation or cultivation; lawn or sports-ground rollers.	8432.90.90
84.33	Harvesting or threshing machinery,	8433.19.00/ 8433.59.00/ 8433.90.90
84.35	Presses, crushers and similar machinery used in the manufacture of wine, cider, fruit juices or similar beverages.	8435.10.00
84.36	Other agricultural, horticultural, forestry, poultry-keeping or bee-keeping machinery, including germination plant fitted with mechanical or thermal equipment; poultry incubators and brooders.	8436.29.00/ 8436.99.00
84.37	Machines for cleaning, sorting or grading seed, grain or dried leguminous vegetables; machinery used in the milling industry or for the working of cereals or dried leguminous vegetables, other than farm-type machinery.	8437.90.00
84.38	Machinery, not specified or included elsewhere in this chapter, for the industrial preparation or manufacture of food or drink, other than machinery for the extraction or preparation of animal or fixed vegetable fats or oils.	8438.20.00/ 8438.30.00/ 8438.40.00/ 8438.50.00/ 8438.90.00
84.39	Machinery for making pulp of fibrous cellulosic material or for making or finishing paper or paperboard.	8439.20.00/ 8439.30.00/ 8439.99.00

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Annexure 02

HS Heading	Description	HS Code
84.40	Book-binding machinery, including book-sewing machines.	8440.10.00
84.41	Other machinery for making up paper pulp, paper or paperboard, including cutting machines of all kinds.	8441.10.00/ 8441.20.00/ 8441.30.00/ 8441.40.00/ 8441.80.00/ 8441.90.00
84.42 84.43	Machinery, apparatus and equipment (other than the machines of headings 84.56 to 84.65) for preparing or making plates, cylinders or other printing components;	8442.30.00/ 8442.50.00 8443.32.10/ 8443.32.30/ 8443.32.90/ 8443.39.10/ 8443.39.20/ 8443.31.10/ 8443.39.30/ 8443.39.90/ 8443.91.00/ 8443.99.10/ 8443.99.20
84.48	Auxiliary machinery.	8448.49.00/ 8448.59.00
84.49	Machinery for the manufacture or finishing of felt or nonwovens in the piece or in shapes.	8449.0.00

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HS Heading	Description	HS Code
84.53	Machinery for preparing, tanning or working hides, skins or leather or for making or repairing footwear or other articles of hides, skins or leather, other than sewing machines.	8453.10.00/8453.20.00/ 8453.80.00/ 8453.90.00
84.54	Converters, ladles, ingot moulds and casting machines, of a kind used in metallurgy or in metal foundries.	8454.20.00/ 8454.30.00/ 8454.90.00
84.55	Metal-rolling mills and rolls therefor.	8455.10.00/ 8455.21.00/ 8455.22.00/ 8455.30.00/ 8455.90.00
84.56	Machine-tools for working any material by removal of material, by laser or other light or photon beam, ultrasonic, electro-discharge, electro-chemical, electron beam, ionic-beam or plasma arc processes; water-jet cutting machines.	8456.11.00/ 8456.12.00/ 8456.20.00/ 8456.30.00/ 8456.40.00/ 8456.50.00/ 8456.90.00
84.57	Machining centres, unit construction machines (single station) and multi-station transfer machines, for working metal.	8457.10.00/ 8457.30.00
84.58	Lathes (including turning centres) for removing metal(+).	8458.11.00/ 8458.19.00/ 8458.91.00/ 8458.99.00

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Annexure 02

HS Heading	Description	HS Code
84.59 84.60 84.61 84.62 84.63 84.64 84.65	Machine-tools	8459.29.00/ 8459.41.00/ 8459.59.00/ 8459.61.00/ 8459.69.00/ 8459.70.00/ 8460.22.00/8460.23.00/8460.24.00/8460.29.00/ 8460.39.00/ 8460.90.00/ 8461.50.00/ 8461.90.00/ 8462.10.00/ 8462.21.00/ 8462.29.00/ 8462.31.00/ 8462.39.00/ 8462.41.00/ 8462.49.00/ 8462.91.00/ 8462.99.00/ 8463.10.00/8463.20.00/ 8463.30.00/ 8463.90.00/8464.10.00/ 8464.20.00/ 8464.90.00/8465.10.00/ 8465.20.00/ 8465.91.00/ 8465.92.00/8465.93.00/ 8465.94.00/8465.95.00/ 8465.96.00/ 8465.99.00
84.66	Parts and accessories suitable for use solely or principally with the machines of headings 84.56 to 84.65, including work or tool holders, self-opening die heads, dividing heads and other special attachments for the machines; tool holders for any type of tool for working in the hand.	8466.10.00/ 8466.20.00/8466.30.00/ 8466.91.00/ 8466.92.00/ 8466.93.00/ 8466.94.00
84.67	Tools for working in the hand, pneumatic, hydraulic or with self-contained electric or non-electric motor.	8467.11.00/ 8467.19.00/ 8467.21.00/ 8467.22.00/ 8467.29.00/ 8467.81.00/ 8467.89.00/ 8467.91.00/ 8467.92.00/ 8467.99.00
84.68	Machinery and apparatus for soldering, brazing or welding, whether or not capable of cutting, other than those of heading 85.15; gas-operated surface tempering machines and appliances.	8468.20.00/ 8468.80.00/ 8468.90.00

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HS Heading	Description	HS Code
84.70	Calculating machines and pocket-size data recording, reproducing and displaying machines with calculating functions; accounting machines, postage-franking machines, ticket-issuing machines and similar machines, incorporating a calculating device; cash registers.	8470.21.00/ 8470.29.00/ 8470.50.00 8470.90.00
84.71	Automatic data processing machines and units thereof; magnetic or optical readers, machines for transcribing data on to data media in coded form and machines for processing such data, not elsewhere specified or included.	8471.30.10/ 8471.41.10/ 8471.49.10 8471.50.10/ 8471.60.00/ 8471.80.00/ 8471.9000
84.72	Other office machines	8472.10.00/ 8472.30.00
84.73	Parts and accessories (other than covers, carrying cases and the like) suitable for use solely or principally with the machines of headings 84.70 to 84.72.	8473.21.00/ 8473.29.00/ 8473.30.00/ 8473.40.90/ 8473.50.90
84.75	Machines for assembling electric or electronic lamps, tubes or valves or flashbulbs, in glass envelopes; machines for manufacturing or hot working glass or glassware.	8475.29.00/ 8475.90.00
84.76	**Automatic goods-vending machines (for example, postage stamp, cigarette, food or beverage machines), including money-changing machines.**	8476.21.00/8476.29.00 8476.89.00/8476.90.00
84.78	**Machinery for preparing or making up tobacco, not specified or included elsewhere in this Chapter.**	8478.10.00/8478.90.00
84.79	**Machines and mechanical appliances having individual functions, not specified or included elsewhere in this Chapter**	8479.10.00 /8479.20.10 8479.20.90/8479.30.00 8479.40.00/8479.50.00 8479.60.00/8479.71.00 8479.79.00/8479.81.00 8479.89.10/8479.89.30 8479.89.40/8479.90.00

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Annexure 02

HS Heading	Description	HS Code
84.80	**Moulding boxes for metal foundry; mould bases; moulding patterns; moulds for metal (other than ingot moulds), metal carbides, glass, mineral materials, rubber or plastics**	8480.10.00/8480.20.00 8480.30.00/8480.41.00 8480.49.00/8480.50.00 8480.60.00/8480.71.00
84.81	**Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats or the like, including pressure-reducing valves and thermostatically controlled valves.**	8481.10.00/8481.20.00 8481.30.00/8481.40.00 8481.80.10/8481.80.20 8481.80.30/8481.80.40 8481.80.50/8481.80.60 8481.90.10/8481.90.20 8481.90.30/8481.90.90
84.82	**Ball or roller bearings.**	8482.10.00/8482.20.00 8482.30.00/8482.40.00 8482.50.00/8482.80.00 8482.91.00/8482.99.00
84.83	**Transmission shafts (including cam shafts and crank shafts) and cranks; bearing housings and plain shaft bearings; gears and gearing; ball or roller screws; gear boxes and other speed changers, including torque converters; flywheels and pulleys, including pulley blocks; clutches and shaft couplings (including universal joints)**	8483.10.00/8483.20.00 8483.30.00/8483.40.00 8483.50.00/8483.60.00 8483.90.00
84.84	**Gaskets and similar joints of metal sheeting combined with other material or of two or more layers of metal; sets or assortments of gaskets and similar joints, dissimilar in composition, put up in pouches, envelopes or similar packings; mechanical seals.**	8484.10.00/8484.20.00 8484.90.00
84.86	**Machines and apparatus of a kind used solely or principally for the manufacture of semiconductor boules of wafers, semiconductor devices, electronic integrated circuits or flat panel displays; machines and apparatus specified in Note 9 (C) to this Chapter; parts and accessories.**	8486.10.00/8486.20.00 8486.30.00/8486.40.00 8486.90.00
84.87	**Machinery parts, not containing electrical connectors, insulators, coils, contacts or other electrical features, not specified or included elsewhere in this Chapter**	8487.10.00/8487.90.00

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Annexure 02

HS Heading	Description	HS Code
85.01	**Electric motors and generators (excluding generating sets).**	8501.10.10/ 8501.31.90/ 8501.32.00/ 8501.34.00/ 8501.40.10/ 8501.40.20/ 8501.40.90/ 8501.51.10/ 8501.51.90/ 8501.52.10/ 8501.52.90/8501.53.00
85.02	**Electric generating sets and rotary converters.**	8502.20.00/ 8502.31.00 / 8502.39.00/
85.03	**Parts suitable for use solely or principally with the machines of heading 85.01 or 85.02 :**	8503.00.20/ 8503.00.90
85.04	**Electrical transformers, static converters (for example, rectifiers) and inductors.**	8504.10.10 / 8504.10.90 8504.21.10 /8504.21.90 8504.22.10/8504.22.20 8504.22.30 /8504.23.90 8504.31.10/8504.31.90 8504.32.10/8504.32.90 8504.33.10/ 8504.33.90 8504.34.10/8504.34.90 8504.40.10/8504.40.30 8504.50.10/8504.50.90 8504.90.10/8504.90.90
85.05	**Electro-magnets; permanent magnets**	8505.11.00/ 8505.19.00 8505.20.00/ 8505.90.00
85.06	**Primary cells and primary batteries(+).**	8506.10.10/ 8506.10.90/ 8506.50.00/ 8506.80.00 / 8506.90.00
85.07	**Electric accumulators, including separators therefor, whether or not rectangular (including square).**	8507.10.90/ 8507.20.00 8507.30.00/ 8507.40.00 8507.60.00/8507.80.00 8507.90.00

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HS Heading	Description	HS Code
85.14	**Industrial or laboratory electric furnaces and ovens other industrial or laboratory equipment for the heat treatment of materials by induction or dielectric loss.**	8514.10.00/ 8514.20.00 8514.30.00/8514.40.00 8514.90.00
85.15	**Electric (including electrically heated gas), laser or other light or photon beam, ultrasonic, electron beam, magnetic pulse or plasma arc soldering, brazing or welding machines and apparatus, whether or not capable of cutting; electric machines and apparatus for hot spraying of metals or cermets.**	8515.11.00/ 8515.21.00 8515.29.00/ 8515.31.00 8515.39.00/8515.80.00 8515.90.00
85.16	**Electric instantaneous or storage water heaters and immersion heaters; electric space heating apparatus and soil heating apparatus; electro-thermic hair-dressing apparatus (for example, hair dryers, hair curlers, curling tong heaters) and hand dryers; electric smoothing irons; other electro-thermic appliances of a kind used for domestic purposes; electric heating resistors, other than those of heading 85.45.**	8516.10.00/ 8516.21.00 8516.29.00/ 8516.31.00 8516.32.00/ 8516.33.00 8516.71.00/ 8516.72.00 8516.79.10/ 8516.80.00 8516.90.10/ 8516.90.90

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Annexure 02

HS Heading	Description	HS Code
85.25 **85.26** **85.27** **85.28**	**Transmission apparatus for radio-broadcasting or television, whether or not incorporating reception apparatus or sound recording or reproducing apparatus; television cameras, digital cameras and video camera recorders.**	8525.50.00 / 8525.60.00 / 8526.10.00 /8526.91.00 8526.92.00/ 8527.19.00 /8527.29.00 8527.99.00 / 8528.42.00/ 8528.49.90 8528.52.00/ 8528.59.90 8528.62.00/ 8528.69.00 8528.71.10/ 8528.71.90 8528.72.39/ 8528.72.49 8528.73.30/ 8528.73.90

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Annexure 02

HS Heading	Description	HS Code
85.30	**Electrical signalling, safety or traffic control equipment for railways, tramways, roads, inland waterways, parking facilities, port installations or airfields (other than those of heading 86.08).**	8530.10.00 / 8530.80.00 8530.90.00
85.31	**Electric sound or visual signalling apparatus (for example, bells, sirens, indicator panels, burglar or fire alarms), other than those of heading 85.12 or 85.30.**	8531.10.00 /8531.12.00 8531.80.10/ 8531.80.90 8531.90.00
85.32	**Electrical capacitors, fixed, variable or adjustable (pre-set)(+).**	8532.10.10/ 8532.10.90 8532.22.90/ 8532.25.90 8532.29.90/ 8532.30.90 8532.90.90
85.33	**Electrical resistors (including rheostats and potentiometers), other than heating resistors.**	8533.29.90 / 8533.40.00
85.34	**Printed circuits.**	8534.00.00
85.35	**Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits (for example, switches, fuses, lightning arresters, voltage limiters, surge suppressors, plugs and other connectors, junction boxes), for a voltage exceeding 1,000 volts.**	8535.10.00 /8535.21.00 8535.29.00/8535.30.00 8535.40.00/ 8535.90.00
85.39	**Electric filament or discharge lamps, including sealed beam lamp units and ultra-violet or infra-red lamps; arc-lamps; light-emitting diode (LED) lamps.**	8539.10.00/8539.21.00 8539.22.00/8539.29.00 8539.31.00/ 8539.31.90 8539.32.00/ 8539.39.00 8539.41.00/ 8539.49.00 8539.50.00/ 8539.90.00

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HS Heading	Description	HS Code
85.40	**Thermionic, cold cathode or photo-cathode valves and tubes (for example, vacuum or vapour or gas filled valves and tubes, mercury arc rectifying valves and tubes, cathode-ray tubes, television camera tubes).**	8540.11.10/8540.11.90 8540.12.10/8540.12.90 8540.71.00/8540.81.00 8540.89.00
85.41	**Diodes, transistors and similar semiconductor devices; photosensitive semiconductor devices, including photovoltaic cells whether or not assembled in modules or made up into panels; light-emitting diodes (LED); mounted piezo-electric crystals.**	8541.29.00/ 8541.30.00
85.42	**Electronic integrated circuits.**	8542.31.00/ 8542.32.00 8542.33.00/ 8542.39.00 8542.90.00
85.43	**Electrical machines and apparatus, having individual functions, not specified or included elsewhere in this Chapter.**	8543.20.00/8543.70.20 8543.70.90/8543.90.00
85.45	**Carbon electrodes, carbon brushes, lamp carbons, battery carbons and other articles of graphite or other carbon, with or without metal, of a kind used for electrical purposes.**	8545.20.00/8545.90.00
85.46	**Electrical Insulators of any material.**	8546.10.00/ 8546.20.00 8546.90.00
85.47	**Insulating fittings for electrical machines, appliances or equipment, being fittings wholly of insulating material apart from any minor components of metal (for example, threaded sockets) incorporated during moulding solely for purposes of assembly, other than insulators of heading 85.46; electrical conduit tubing and joints therefor, of base metal lined with insulating material.**	8547.10.00/8547.20.00 8547.90.00
85.48	**Waste and scrap of primary cells, primary batteries and electric accumulators; spent primary cells, spent primary batteries and spent electric accumulators; electrical parts of machinery or apparatus, not specified or included elsewhere in this Chapter.**	8548.10.10/8548.10.20 8548.90.00

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Glossary

ESC	Economic Service Charge
SCL	Special Commodity Levy
PAL	Ports and Airport Development Levy
VAT	Value Added Tax
VAT Act	Value Added Tax Act no 14 of 2002 (as last amended in 2018)
NBT	Nations Building Tax
NBT Act	Nation Building Tax Act 09 of 2009 (as last amended in 2018)
SLTDA	Sri Lanka Tourism Development Authority
ESC Act	Economic Service Charge (as last amended in 2018)
BOI	Board of Investments
Bn	Billion
IR Act	Inland Revenue Act No. 24 of 2017

IT	Information and Technology
Mn	Million
NBT	Nation Building Tax
PFCA	Personal Foreign Currency Account
SLDB	Sri Lanka Development Bonds
USD	United States Dollar
WHT	Withholding Tax

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KPMG in Sri Lanka

Office

Part of KPMG global network

Established in,

1897

The oldest Chartered Accountancy firm in the country

Celebrating,

122 years

Service

KPMG is expanded in,

6 districts

KPMG value proposition,

- **Our Values**
- **Our Credentials**
- **Proven Methodology**
- **Experienced Core Team**

Professional Service Provider

Audit

Tax

Advisory

People

18 Partners

1,300 People Locally

207,000 People globally

Dedicated to Learning & Development

Committed to developing a continuous learning culture

- **Technical training,**
- **Coaching,**
- **Mentoring,**
- **Industry secondments and**
- **Skill-building programs**

Global Existence

152

Countries

Achievements

Global Outsourcing Leader 2016 & 2015

IAOP The Association with Collaboration at its Core.

Outsourcing Advisory of the Year 2015

NOA WINNER

KPMG UK National Outsourcing Association

Most Respected '17 - LMD

KPMG was ranked among the most respected in the latest LMD rankings becoming first in the financial service category

KPMG named **"Tax Firm of the Year – 2017 & Tax Disputes & Litigation Firm of the Year – 2017"**

by International Tax Review, Asia Tax Awards 2017

KPMG named **"The Best Advisory Firm – Sri Lanka 2016"**

IFM BEST ADVISORY FIRM SRI LANKA AWARDS 2016

by International Finance Magazine

KPMG named **"Best Deal Advisory Firm in Sri Lanka 2015"**

GLOBAL BANKING & FINANCE REVIEW

by Global Banking and Finance Review

Investments and innovation

KPMG HR Solutions

KPMG Technology Solutions

Awarded The Oracle Partner of the year 2018

Core Capabilities

All about Cloud

Implementation

Consultancy Services

Outsourcing

A Global Cloud Elite, the highest distinction in the Oracle Partner Network (OPN) Cloud program.

KPMG Professionalism

Innovative

Expert

Result Driven

Passionate

Global Mindset

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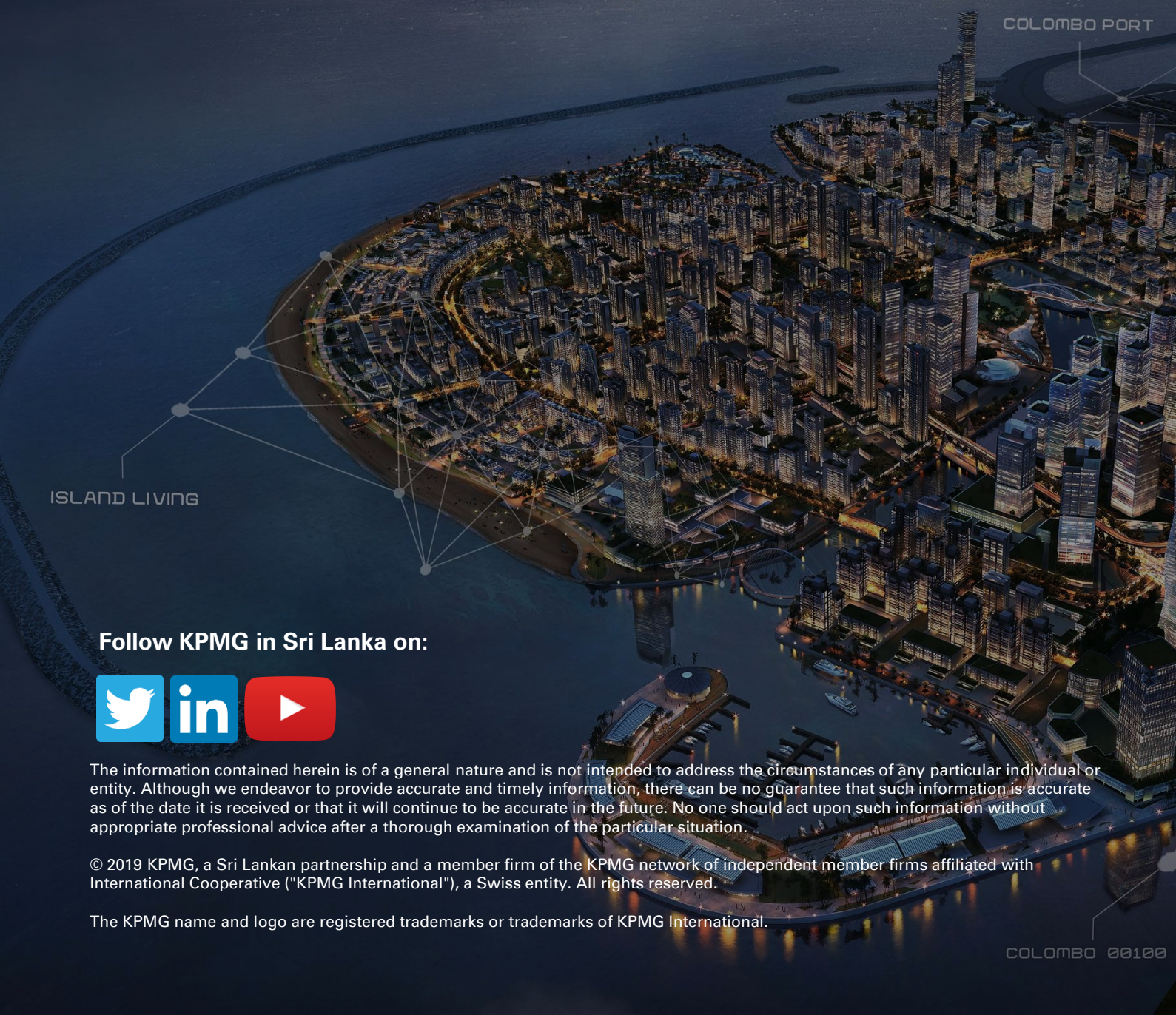

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