

2011

# BUDGET HIGHLIGHTS

## 2011



**For clients of Keerthi Mihiripenna & Co.**

We are pleasure in presenting you the Budget Proposal presented by His Excellency the President Mahinda Rajapakse his fourth budget who is also the Minister of Finance. We hope the publication will assist you in planning your Personal and Corporate Taxes. However, please note that these proposals are subject to change during the period by passing gazette notifications through the Parliament.

This has been prepared as a general guide for the information of our clients and staff. Therefore this presentation is only for your assistance, not for decision making. Hence No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

For additional information or guidance on the issues dealt with the Budget proposal, Keerthi Mihiripenna & Co; will be pleased to assist you.

Yours faithfully,

Keerthi Mihiripenna & Co,

Chartered Accountant

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## INCOME TAX

### Personal Tax

According to the government fiscal policy, Government has decided to reduce the prevailing personal Tax rates and the thresholds as given below.

	Proposed		Prevailing	
	Amount - Rs	Rate	Amount - Rs	Rate
First	500,000	4%	400,000	5%
Next	500,000	8%	400,000	10%
Next	500,000	12%	400,000	15%
Next	500,000	16%	500,000	20%
Next	1,000,000	20%	500,000	25%
Next	-	-	500,000	30%
Balance		24%		35%

When we considering the present Income Tax (Personal) one of the major change is increase the Tax free allowance Rs.300, 000 to 500,000. At the same time Non-resident persons are not entitled for the tax free allowance. However tax free allowance is proposed to extend to Non- residents as well.

### Employment Income

Employment income will be taxed under the PAYE scheme and will be the final tax.

Since the Tax free allowance has been increased, the PAYE tax and range band on employment Income will be redesigned as it proposed to increase to 500,000.

PAYE tax table will be design Tax free allowance as 600,000 considering general deductions that employees are entitled.

PAYE tax will be the final tax as employees concern, and neither directions nor refunds permitted.

### Interest Income

Exemption on Interest Income on deposits held on state bank by the senior citizens has been increased to 200,000 to 500,000

### Other points to note

Tax credit mechanism will be abolished.

Rewards or fine received will continue to be taxed

Pension, retirement benefit, vehicle benefit, housing benefit will be exempted up to 50,000

Free issue of shares to the employees will be taxable

### Qualifying Payments

No	Payments	Proposed	Prevailing
1	Approved Charities	Restricted to Institutional care for sick and needy	Claimable
2	Government/Specified Institute	Claimable	Claimable
3	Life and Medical Insurance	Claimable	Claimable
4	Donation to specifies institution	Not Allowed	Claimable
5	Production of Films	Not Allowed	Claimable
6	Housing loan	Not Allowed	Claimable

### Exemptions – Employment Income

No	Income source	Proposed	Prevailing
1	Contributions from Provident Funds	Exempt	Taxed at concessionary rates
2	Motor vehicle benefit	Exempt	Taxed @ engine capacity to a maximum of Rs. 15,000 p.m.
3	Motor vehicle allowance	Exempt to a maximum of Rs. 50,000 p.m.	Taxed at standard rates
4	Interest income to senior citizens	Exempt threshold increased to Rs. 500,000	Exemption threshold was Rs. 200,000
5	Emoluments earned by noncitizen individual participating in international events	Exempt	Liable at standard rates

## Corporate Tax

New rates of Income tax applicable for corporate sector have been stated below

**Effective Date:** 1/4/2011

Type of Organization/Profit	Proposed	Prevailing
Standard Rate (If Taxable Income > 5 Mn)	28%	35%
Reduced Rate (If Taxable Income < 5 Mn)	12%	15%
Quoted Companies	28%	33.33%
Financial Institutions	28%	35%
Profit from Export, Tourism, Constructions	12%	15%
Clubs Associations	10%	20%
Local Software Development	10%	35%
Agricultural Undertakings	10%	Exempt
Small & Medium Enterprises	10%	15%
Partnership Tax	8%	10%

Rates of capital allowances have been increased as following tabular states

**Effective Date:** 1/4/2011

Class of Assets	Proposed	Prevailing
Plant & Machinery	33.33%	12.50%
New Building constructed for commercial use	10%	6.33%

**Following Expenses can be claimed against trading profit under certain conditions**

No	Expenditure	Proposed	Prevailing
1	Advertising Expenses	Restricted to 25 % Allowance	Generally 50% of the expenses disallowed
2	Nation Building Tax	NBT is to be allowed in full	Deduction is restricted on 1/3 of NBT
3	Tax born by Employer	Disallowed	Claimed as cost of employment
4	Listing Expenses	Allowed 1% of of the value of IPO	Not allowed since capital nature
5	Un absorbed VAT		
	- Revenue Nature	Allowed 1/4 as expenditure	Not Available
	- Capital Nature	Consider as a part of the capital asset and allow for capital allowances	Not Available
6	Research Expenditure	Double deduction is available for research conducted within sri lanka through an institution estd for research purpose	Sec 25 Allows the Expenditure fully
7	Foreign Travel Expenses	Allowed in full if same being incurred in production of Income, and restricted to 2% of previous year total statutory income	Not allowed other than export oriented, foreign currency receipt and promotion of tourism
8	Foreign Training	Allowed in full if same being incurred in production of Income, and restricted to 2% of previous year total statutory income	Generally allowed
9	Management Fees	Restricted to 2Mn or 1% of the turnover (whichever is lower)	Restricted to 1Mn or 1% of the turnover (whichever is lower)

**Qualifying Payments**

No	Payments	Proposed	Prevailing
1	Approved Charities	Restricted to Institutional care for sick and needy	Claimable subject to the limitations
2	Government/Specified Institute	Claimable	Claimable
3	Donation to Specified Institute	Not Allowed	Claimable
4	Production of Films	Not Allowed	Claimable subject to the limitations
5	Construction of a Cinema	Not Allowed	Claimable subject to the limitations
6	Upgrading of a Cinema	Not Allowed	Claimable subject to the limitations
7	Constction/Sale Houses for low income families	Not Allowed	Claimable subject to the limitations

## **New Exemptions**

### **Tax Holiday for New Investments**

With the prior approval from CGIR five years tax holiday period is available for new undertaking which carries activities specified by the minister towards to development of the national economy with the minimum investment of UDS 5000 and maximum of USD 10 Million.

### **Foreign Exchange Earnings**

Exemption on Foreign currency earnings on any services provided to persons outside srilanka will be exempted. However it will not be applicable receipts earned in Sri Lanka in foreign currency and commission, Discounts.

### **Industrial Exemptions**

Fishing, Cultivation and primary processing of agricultural seeds and planting material sectors proposed to be exempt for five years from 2011/12.

### **Unit Trusts**

Profits from investment in listed debentures/equity proposed to be exempted

### **Specified Industries**

The following specified institution exempted from Income tax w.e.f 1/4/2011

Ceylon Electricity Board	5
Ceylon Petroleum Corporation	5
Mihin Lanka (pvt) Ltd	10
Sri Lanka Air lines Ltd	10
Sri Lanka Port Authority	5
National Water Supply & Drainage Board	5

Corporative Societies which is registered under provincial council are proposed to be exempted from income tax.



## Withholding Tax

CATOGARY	PROPOSED	PREVAILING
W.H.T on Specified fees	Abolished from 1/4/2011	Deducted on Service rendered @ 5%, on Construction 1%
W.H.T on Rent	Abolished from 1/4/2011	Deducted on rent @ 10%
W.H.T on Interest*	Maximum rate @ 8%	Deducted @ Maximum rate @ 10%
W.H.T on Directors Fees	Increased to 16% in excess of 25000 p.m	Deducted @ 10%

\*Extract of W.H.T on Interest

<b>Proposed</b>		
Interest Income		Rate
-	500,000	0 %
500,000	1,500,000	2.5 %
1,500,000	above	8 %

<b>Prevailing</b>		
Interest Income		Rate
-	300,000	0 %
300,000	1,000,000	2.5 %
1,000,000	above	10 %

## VALUE ADDED TAX (VAT)

Category	Proposed	Prevailing
Standard Rate	12%	12%
Luxury Rate	12%	20%
Zero Rate	0%	0%

### Input Tax

It is proposed to abolish the input tax restriction. Therefore input tax credit available fully against the output tax from 1.1.2011. Previously it was restricted input credit to 85% of output tax.

Unclaimed input tax credit available as at 31<sup>st</sup> December 2010 can be set-off against income tax.

### VAT Suspension system

Currently Export Development Bank (EDB) and the Textile Quota Board (TQB) monitor the system. It is proposed to transfer the system to monitor to a separate unit under statue of Department of Inland Revenue.

It is proposed to extend the system to special category of supply made to following persons

- Deemed exports (Manufactures good and supply to an Exporter)
- Registered persons carrying out special projects exempted under VAT act
- Exporter of any goods or service other than already covered under existing system.
- Value added supplies to any articles to be exported.

### VAT on financial services

Rate – It is proposed to reduced the existing rate from 20% to 12%

Base - Value addition for tax purposes will be calculated after deducting the VAT on financial services. Previously this deduction was not permitted.

Return- Payment to be paid monthly and returns to be filed Bi annually.

### VAT refunds

Fifteen day (15) refund system withdrawn and suspension system proposed to be executed

It is proposed to allow Input tax credit subject to the cross check mechanism

Refund cheques will be directly deposited to the tax payer a/c

## ECONOMICS SERVICE CHARGE (ESC)

The amendments to the Economic Service Charge Act will be effective from 01.04.2011

NO	ITEM	PROPOSED	PREVAILING
1	<b>Threshold</b>	25 Mn per quarter	7.5 Mn per quarter
2	<b>Exemptions</b>	1. Distribution as ESC act 2. Dealers in Lottery 3. Unit trust or Mutual funds 4. Air lines & Shipping lines	N/A
3	<b>Returns</b>	Annually	Quarterly
4	<b>Rates</b>		
4.1	B.O.I Companies (Liable to Income Tax) Apparel Exporters/ BOI Trading Houses/ Manufacture of Textile to Apparel Exporters	0.1%	0.1%
4.2	Exempt / concessionary rate or others Exempt from income tax (including tax holiday companies)	}	0.25%
4.3	During the period which losses are made		1%
4.4	Subject to tax at concessionary rates		0.5%
4.5	Wholesale or retail trade other than manufactured or produced by the seller (except distributors or dealers in motor vehicles or liquor)		0.25%
4.6	Primary conversion of any tea , rubber or coconut plantation including desiccated coconut, coconut oil or fiber, copra and sheet rubber , but excluding any conversion which produces ant alcoholic beverage.	}	0.5%
4.7	Commercial operations – Advertising Agents		0.5%
4.8	Other (including dealers in motor vehicles, liquor, tobacco and petroleum) and turnover of businesses which are defined under the gazette notification.	1%	1%

## NATION BUILDING TAX (NBT)

NO	ITEM	PROPOSED	PREVAILING
<b>1</b>	<b>Chargeability</b>	<p><u>Proposed to extend chargeability</u></p> <p>Service of Hotels above 3 Star ranking</p> <p>Optional VAT registered persons</p> <p>Whole sale &amp; Retail sale of goods</p>	Whole sale and Retail trade excluded from NBT
<b>2</b>	<b>Threshold - General</b>	500,000 per quarter	650,000 Mn per quarter
	<p><b>Specified -</b></p> <p>1.Hotel, Guesthouse, Restaurant or other Similar business</p> <p>2.Local value added agricultural produce, rice based products</p> <p>3.Local educational institutions;</p> <p>4.Supply of labor (man power) or employment</p>	12.5 Mn per quarter	N/A
<b>3</b>	<b>Income Tax Credit</b>	Restriction removed. Deductible fully	Credit restricted to 2/3 of NBT from Income Tax
<b>4</b>	<b>Exemptions</b>	<p><u>Proposed to exclude the following from NBT:</u></p> <p>1.Government Institutions (Departments)</p> <p>2. Schools funded by the Government</p> <p>3. Sri Lankan Air, Mihin Air</p> <p>4. Air Lanka Catering Services</p> <p>1.Supply of any goods (including importation) or services to a specific project carried on out of foreign funds or donations received by the government as approved by the minister</p> <p>2.Importation of raw materials and packing materials for the manufacture of ayurvedic preparation subject to the approval of relevant authority</p> <p>3.Services provided to the port or airline in relation the international transportation</p> <p>4.Services provided in relation to the ship building for the international market for payment made in foreign currency</p> <p>5.Services of sub contractors in a construction contract;</p> <p>6.Telecommunication services</p> <p>7.Supply of locally developed software</p> <p>8.Import or supply of following articles</p> <p style="margin-left: 20px;">i. Bitumen under HS Code No 2714</p> <p style="margin-left: 20px;">ii.Tractors</p>	N/A
<b>5</b>	<b>Rates</b>	2%	3%

## **SOCIAL RESPONSIBILITY LEAVE (SRL)**

- SRL on income tax will be removed with effect from 01.04.2011.
- SRL on other Levies will be removed with immediate effect.

## **TURNOVER TAX – TT/BTT (PROVINCIAL COUNCIL)**

### Proposed

Turnover Tax (TT) collected by the provincial council will be abolished with effect from 1 January 2011

The revenue collected by the Central Government will be transferred to the Provincial Council as follows,

- (a) 100% of the total collection of Stamp Duty
- (b) 70% of the total collection of the motor registration fee
- (c) 33 1/3 % of the total collection of NBT

### Prevailing

Turnover Tax has been collected by the provincial councils from Whole sale and Retail trade at the rate of 1% (General rate)

## **DEBIT TAX**

### Proposed

It is proposed to abolish the Debit Tax (Debit Tax act No 16 of 2002) with effect from 1/4/2011.

### Prevailing

Enactment	-Debits Tax was introduced with effect from 19th August 2002
Rate	- 0.1% on debits
Charged	- on Current A/c, Saving A/c on realizing encashment/ withdrawing of deposits

## **CONSTITUTION INDUSTRY GUARANTEE FUND LEVY (CIGFL)**

### Proposed

It is proposed to consider exemption for special projects approved by the Minister of Finance.

### Prevailing

CIGFL is being deducted from the contractor and remit to the IRD by the contractee as withholding tax system, and Contractee issues a withholding tax certificate to the contractor to claim the credit against the CIGFL payable by the contractor.

CIGFL is charged on every construction contractor on their contract value on following basis.

<b>SLABS (Project Value)</b>	<b>RATE</b>
Less than Rs.15mn	Nil
Rs.15mn – Rs.50mn	0.25%
Rs.50mn – Rs.150mn	0.50%
More than Rs.150mn	1%

## **SHARE TRANSACTION LEVY**

### Proposed

It is proposed to increase the levy to 0.3 from 0.2 with effect from 1.1.2011

### Prevailing

Rate – Deduct 0.2% from every buyer and seller of quoted shares sold through the Stock Exchange.