

Budget Proposals 2019

41st Budget of Democratic Socialist Republic of Sri Lanka



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Introduction

The Minister of Finance and Media of the Government of Sri Lanka presented the Government's budget proposals for the year 2019 on 5th March 2019. A snapshot of the salient features that may have an impact on the relevant sectors and companies listed on the CSE is presented below;

Budget Theme:

“ENTERPRISE SRI LANKA – Empowering the People and Nurturing the Poor”

2019 Budget at a Glance

2019 budget focuses on empowering the lower income segment of the country; especially through improving the accessibility of funds to the needy and strengthening the program of economic liberalization introduced in the previous budget.

In this budget there is no significant change proposed for corporate and individual income tax, hence government expects to improve revenue through additional tax imposed on the importation of motor vehicles, targeting LKR 48Bn.

On the expenditure front , increased investments were proposed in social infrastructure, especially in areas of education and health, Facilitating livelihood development, Supporting exports, Enhancing the “Enterprise Sri Lanka” loan scheme for start-ups & small businesses, Developing a knowledge driven society, improving skills for work by facilitating vocational training and creating a culture of research and development, Improving public sector delivery, Creating a caring and healthy society including empowerment of certain sectors, Accelerating village development, making cities smarter and creating a clean, green and a sustainable environment and to promote religion, arts & culture and facilitate reconciliation through economic empowerment.

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HIGHLIGHTS & REVIEW



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Summary of the Budget (2015-2019)

LKR Bn

Item	2015	2016	2017	2018 Provisional	2019 Budget	2020 Projection
Total Revenue and Grants	1,534	1,773	1,932	2,025	2,464	2,859
Total Revenue	1,528	1,766	1,924	2,013	2,451	2,844
Tax Revenue	1,356	1,464	1,671	1,712	2,077	2,420
Income Tax	263	259	275	310	385	480
Taxes on Goods and Services	804	842	1,026	1,062	1,293	1,510
Taxes on External Trade	289	363	370	340	399	430
Non Tax Revenue	99	222	161	208	267	302
Provincial Council Tax Sharing and Devolved Revenue	73	80	92	93	107	122
Grants	6	7	8	12	13	15
Total Expenditure	2,364	2,413	2,666	2,786	3,149	3,450
Recurrent	1,775	1,837	2,021	2,182	2,415	2,661
Salaries and Wages including Provincial Councils	618	632	660	697	778	863
Other Goods and Services including Provincial Councils	201	169	167	160	178	183
Interest	527	611	736	852	913	1,000
Subsidies and Transfers	428	425	458	473	546	615
Public Investment	603	594	657	625	756	811
Other	-14	-18	-12	-21	-22	-22
Revenue Surplus (+)/Deficit(-)	-247	-71	-97	-169	36	183
Primary Surplus (+)/Deficit(-)	-303	-29	2	91	228	409
Budget Surplus (+)/Deficit(-)	-830	-640	-734	-761	-685	-591
Total Financing	830	640	734	761	685	591
Total Foreign Financing	369	429	382	465	55	120
Foreign Borrowings-Gross	556	574	601	772	720	700
Project and Programme Loans	173	208	220	210	270	300
Foreign Commercial	383	366	381	562	450	400
Debt Repayment	-187	-145	-219	-307	-665	-580
Total Domestic Financing	461	211	352	296	630	471
Non - Bank Borrowings	197	399	120	279	362	295
Foreign Investments in T-Bills and T-Bonds	223	-121	54	-129	180	140
Bank Borrowings	41	-67	133	38	88	36
Divestiture proceeds			45	108	-	

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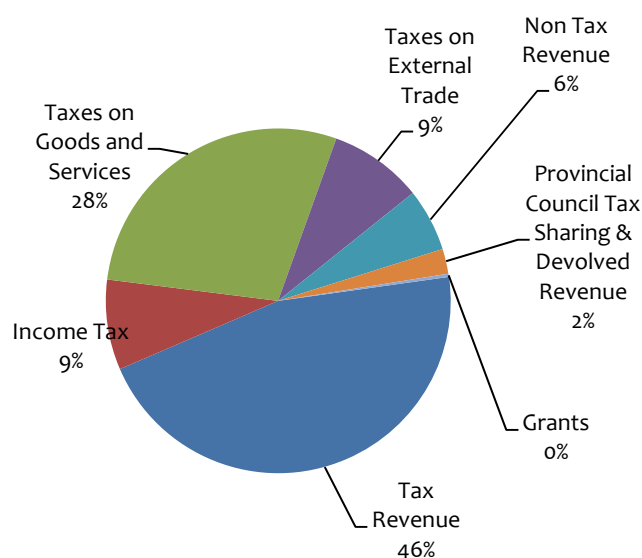


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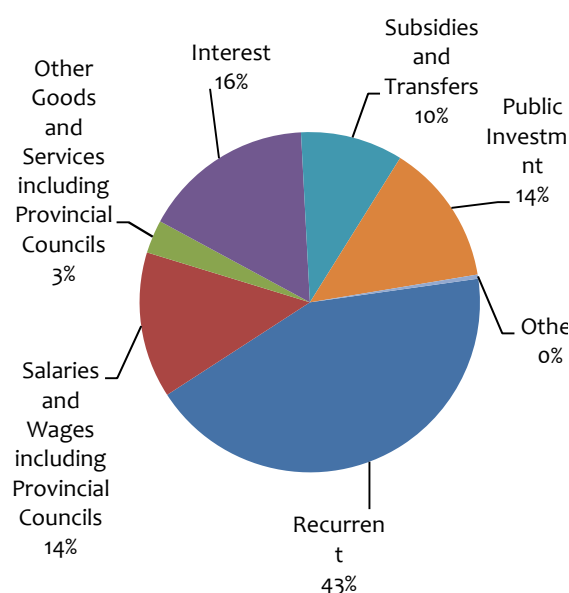
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Item	2015	2016	2017	2018 Provisional	2019 Budget	2020 Projection
Revenue and Grants/GDP (%)	14	15	14.5	14.1	15.8	16.8
Total Revenue/GDP (%)	14	14.9	14.5	14	15.7	16.7
Tax Revenue/GDP	12.4	12.4	12.6	11.9	13.3	14.2
Non Tax Revenue/GDP (%)	0.9	1.9	1.2	1.4	1.7	1.8
PC Tax Sharing and Devolved Revenue/GDP (%)	0.7	0.7	0.7	0.6	0.7	0.7
Grants/GDP (%)	0.1	0.1	0.1	0.1	0.1	0.1
Total Expenditure/GDP (%)	21.6	20.3	20.1	19.4	20.2	20.3
Recurrent Expenditure/GDP (%)	16.2	15.5	15.2	15.2	15.5	15.7
Non Interest including Provincial councils/ GDP (%)	11.4	10.4	9.7	9.3	9.6	9.8
Interest/ GDP (%)	4.8	5.1	5.5	5.9	5.9	5.9
Public Investment/ GDP (%)	5.5	5	4.9	4.4	4.8	4.8
Revenue Surplus (+)/Deficit (-) GDP (%)	-2.3	-0.6	-0.7	-1.2	0.2	1.1
Primary Surplus (+)/Deficit (-) GDP(%)	-2.8	-0.2	0	0.6	1.5	2.4
Budget Surplus (+)/Deficit (-) GDP(%)	-7.6	-5.4	-5.5	-5.3	-4.4	-3.5

Total Revenue and Grants



Total Expenditure



Proposals which may have possible impact on listed counters

Banking and Finance Sector

-) Interest income earned by any person on NRFC and RFC accounts will be exempted from income tax for 5 years.
-) Interest income earned up to LKR 5, 000 per month on Minors' accounts maintained in a financial institution, is to be exempt.
-) 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 LKR 25 for every LKR 1000 or part thereof (2.5%).
-) 6% concessionary home loan facilities upto LKR 10mn repayable in 25 years for newlyweds
-) Loan scheme for electric trishaws & mini taxis. Government will bear 75% of the loan
-) Enterprise Sri Lanka to be expanded to provide concessionary loans to young entrepreneurs.

Diversified Sector

-) It is proposed to charge ESC at the rate of 0.5%, on all imports into Sri Lanka other than capital goods prescribed by the Minister of Finance.

Construction & Engineering

-) No foreign construction company can bid for government projects unless they are fully foreign funded or there is a joint venture with a local company
-) It is proposed to charge ESC at the rate of 0.5%, on all imports into Sri Lanka other than capital goods prescribed by the Minister of Finance.
-) NBT exemption will be introduced in favour of the main construction contractors.
-) Cess on imported construction material will be reduced by 30% in order to support the property development sector.
-) It has been proposed to import of goods exempt from Port and Airport Development Levy during project implementation or construction period for projects where investment is over USD 50 Million.

Investment incentives – BOI Projects

-) Incentives have been proposed for large scale BOI approved projects that invest 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.

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 1Bn, 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.
-) Existing businesses – Accelerated depreciation allowance is to be granted on expansion of existing businesses, in place of the regular depreciation allowance.

Telecommunication Sector

-) International Telecommunication Operators Levy will be removed from w.e.f 1 June 2019.

Plantation Sector

-) 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.
-) Government has allocated LKR 800Mn to facilitate replanting and new planting of rubber.

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Motor Sector

) Carbon Tax

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.

Type of vehicle	Less than 05 years	05 to 10 years	Over 10 years
Hybrid (Petrol/Diesel)	LKR0.25 per cm ³ or LKR 3,500 whichever is lower	LKR0.50 per cm ³ or LKR 5,500 whichever is lower	LKR1.00 per cm ³ or LKR 7,500 whichever is lower
Fuel (Petrol/Diesel)	LKR0.50 per cm ³ or LKR 3,500 whichever is lower	LKR1 per cm ³ or LKR 5,500 whichever is lower	LKR1.50 per cm ³ or LKR 7,500 whichever is lower

(Effective from 1 June 2019)

- Luxury Tax on Motor Vehicles

Luxury tax on motor vehicles will be imposed on the CIF value or the manufacturer’s price. The tax free threshold and the applicable tax rates are as follows:

Type of Vehicle	Luxury Tax Free Threshold	Applicable rate on the amount exceeding the Luxury Tax Free Threshold
Diesel	LKR3.5Mn	120%
Petrol	LKR3.5Mn	100%
Hybrid Diesel	LKR4.0Mn	90%
Hybrid Petrol	LKR4.0Mn	80%
Electric	LKR6.0Mn	60%

) Luxury Tax Free threshold will be the Cost Insurance Freight (CIF) value in the case of imported vehicles and in the case of locally assembled vehicles, it will be the “ex-factory cost” i.e. the Manufacturer’s price. Will be effective from 1 June 2019

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

) Excise Duty on hearses will be revised.

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

) Excise Duty on the Single cabs will be revised.

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-) Excise Duty on Buddy Trucks with cargo carrying capacity less than 2,000 kg will be reduced.
-) Excise Duty on passenger vehicles will be revised as follows;
(Effective from 06 March 2019)

(a) Fuel

Engine Capacity	Petrol Fuel (LKR per cm ³)	Diesel Fuel (LKR per cm ³)
$x \leq 1000\text{cm}^3$	2,000 or 1,650,000 Duty per Unit	4,600
$1000\text{cm}^3 < x \leq 1300\text{cm}^3$	3,200	4,600
$1300\text{cm}^3 < x \leq 1500\text{cm}^3$	3,700	4,600
$1500\text{cm}^3 < x \leq 1600\text{cm}^3$	4,250	5,750
$1600\text{cm}^3 < x \leq 1800\text{cm}^3$	5,300	6,900
$1800\text{cm}^3 < x \leq 2000\text{cm}^3$	6,350	8,000

(b) Hybrid

Engine Capacity	Petrol Fuel (LKR per cm ³)	Diesel Fuel (LKR per cm ³)
$x \leq 1000\text{cm}^3$	1,500,000 Duty per Unit	3,400
$1000\text{cm}^3 < x \leq 1300\text{cm}^3$	2,300	3,400
$1300\text{cm}^3 < x \leq 1500\text{cm}^3$	2,850	3,400
$1500\text{cm}^3 < x \leq 1600\text{cm}^3$	4,000	4,600
$1600\text{cm}^3 < x \leq 1800\text{cm}^3$	5,200	5,700
$1800\text{cm}^3 < x \leq 2000\text{cm}^3$	5,700	6,900

(c) Electric

Motor Power of the Engine	Less than one year	More than one year and less than three years
$50\text{kW} < x \leq 100\text{kW}$	10,000	20,000

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(d) Three Wheelers

Type	LKR (per cm ³ /Per kW)
Petrol (cm ³)	2,400
Diesel (cm ³)	1,450
Electric (kW)	7,500
Cargo - Petrol (cm ³)	500
Cargo - Diesel (cm ³)	375
Cargo - Electric (kW)	7,500

(e) Motor Cycles

Engine Capacity	LKR per cm ³
x ≤ 50cm ³	575
50cm ³ < x ≤ 150cm ³	1,150
150cm ³ < x ≤ 200cm ³	1,150
200cm ³ < x ≤ 250cm ³	1,725
250cm ³ < x ≤ 350cm ³	1,725
350cm ³ < x ≤ 450cm ³	2,300
450cm ³ < x ≤ 500cm ³	2,300
500cm ³ < x ≤ 800cm ³	2,875
800cm ³ < x ≤ 1000cm ³	2,875
1000cm ³ < x	3,450

Manufacturing

-) It is proposed to charge ESC at the rate of 0.5%, on all imports into Sri Lanka other than capital goods prescribed by the Minister of Finance.
-) It was proposed to increase the ESC base 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.

Beverage Food and Tobacco

-) It is proposed to charge ESC at the rate of 0.5%, on all imports into Sri Lanka other than capital goods prescribed by the Minister of Finance.
-) From June 2019 NBT to be imposed on manufacturing of cigarettes. The current exemption on importation of cigarettes identified under specified HS Code will prevail.
-) Cess on Tendu Leaves (Beedie Leaves) will be increased from LKR 2,500 to LKR 3,500 per kg, w.e.f 6 March 2019.
-) Revision of Excise Duty on liquor manufactured locally is presented below;

Type	Proposed Rate (LKR Per litre)
Special arrack	No change
Other arrack	3,550
Country made foreign liquor	3,550
Beer less than 5%	2,700
Beer more than 5%	2,700
Wine - local plant materials	600
Wine – other	2,700
Imported malt liquor (Beer)	55
Imported wine	110
Imported other liquor	215

-) Excise Duty on cigarettes will be increased by 12% as follows: (Effective from 06 March 2019)

Length of Cigarettes	Proposed Duty (Per 1000 Sticks)
60 – 67 mm	LKR19,500
67 – 72 mm	LKR23,000
72 – 84 mm	LKR37,580
>84 mm	LKR42,200

-) The exempt quantum of **sugar contained in beverages** will be revised as follows: (Effective from 06 March 2019)

Type of Beverage	Quantum of Sugar
Carbonated Beverages	4 grams per 100 ml
Fruit based beverages	8 grams per 100 ml

-) Duty rate will also be revised to 40 cents per gram of sugar in excess of the exempt quantity as given above.

Information Technology

-) It has been proposed to revise the ESC rate applicable to turnover to 0.25% from 0.5%. Effective Date is 1st June 2019
-) Present concession of , a company predominantly engaged in the business of IT services ,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, has been removed.

Trading

-) Cess on 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 (HS Codes 8418.21.10 and 8418.21.90) will be removed
-) Excise Duty on refrigerators will be revised to 25%
-) Effective Date from 6th March 2019 It has been proposed to reduced Port and Airport Development Levy from 7.5% to 2.5% for HS Codes 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)

Tourism

-) It has been proposed to revise the ESC rate applicable to turnover to 0.25% from 0.5%. Effective Date is 1st June 2019
-) NBT exempted on foreign currency receipts of specified hotels
-) From 01st April 2020 online booking of lodging allowed only if same are registered with SLTDA
-) 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)

Property Sector

-) VAT will be charged on the supply of condominium housing units w.e.f 1 April 2019.
-) The Proposal states where “Deed of Agreement” relating to such supply is not executed prior to 1 April 2019”, such VAT will be applicable.
-) Foreigners investing USD 400,000 or more in condominiums will be entitled to residential VISA

Exporters

-) It has been proposed to revise the ESC rate applicable to turnover arising from the export of goods and services to 0.25% from 0.5%. Effective Date is 1st June 2019

Interest Income on Sovereign Bonds

-) Income accruing to non-resident persons on sovereign bonds denominated in local or foreign currency is to be exempt.
-) Interest income accruing to a resident person on foreign currency denominated sovereign bonds, including SLDB, will be exempted from income tax.

Maternity payment rebates

-) With a view to encourage female participation in the workforce, 50% of the salary cost of the mandatory three months maternity leave to be given as an additional deduction, subject to a maximum of LKR 20,000/- per employee per month.
-) The additional deduction to be extended to a 100% for the 4th month of maternity leave, if so granted.
-) This concession would apply for a 5 year period.

Application of the concessionary rate of tax

-) 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.

Accordingly concessionary rate will be applied only to the activity eligible for the concessionary rate, therefore income from other sources will 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 LKR 50,000 per month or LKR 500,000 per year of assessment.

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