

THE BUDGET PROPOSALS FOR 1984 THEIR IMPACT ON REVENUE

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The increase in the projected Gross Expenditure for 1984, is Rs 4.1 billion over that for 1983, on the basis of the Final Estimates (FE) of Revenue and Expenditure for the New Year. The approved gross expenditure for 1983 was Rs 51.1 billion while that envisaged for 1984 is Rs 47.0 billion. In the Draft Estimates (DE), the figure was Rs 51.2 billion.

The gross expenditure can conveniently be broken down into (a) Capital Expenditure, and (b) Recurrent Expenditure.

A decrease in the Capital Expenditure by Rs 5.9 billion is observed for 1984 since the estimated figure is Rs 18.9 billion compared with that for 1983 which stood at Rs 24.8 billion. This decrease is due to:

- (a) New Projects not being planned for 1984, and
- (b) the abolition of transfers from Capital Votes to Sinking Funds.

It is, therefore, to be assumed that the provision is for financing the on-going projects, (e.g. Mahaweli etc.) With regard to Recurrent Expenditure, an increase of Rs 1.5 billion over 1983 is observed (the figure goes up from Rs 26.5 billion in 1983 to Rs. 28.0 billion).

The Draft Estimates of Revenue and Expenditure of the Government being prepared much in advance of the presentation of the Annual Budget (usually around July-August while the presentation of the Budget is around mid-November) a more realistic picture of the country's prospective economy emerges at the latter period.

The provision in the Draft Estimates in respect of Recurrent Expenditure being found excessive and taking into account:-

- (a) interest payable on Treasury Bills,
- (b) rebate on duty to exporters, and

(c) interest subsidy to the National Savings Bank, a reduction of Rs 700 million, on the basis of the above -

(a) Rs 300 M (b) Rs. 200 M, and (c) Rs. 200 M respectively is anticipated. This brings down the Recurrent Expenditure from Rs 29.3 billion to (DE) Rs 22.6 billion (revised Estimates)

Every successive Budget has shown that there is a fair percentage of under expenditure of voted funds, due no doubt to plausible reasons. This is in contradiction to the presentation in Parliament of many supplementary estimates in the course of a Financial Year due to equally cogent reasons, such as floods, drought droughts, and other domestic calamities. Both the plus and minus factors seem to have right along yielded a net plus result and the Minister, taking into account all circumstances, estimates the net under-expenditure at a conservative 2 percent of the Recurrent Expenditure which would reduce the figure of Rs. 28.6 B to Rs 28.0 B (FE).

The Revenue for 1984 was reckoned at Rs 28.0 billion in the Draft Estimates, but in the Revised Estimates it went up to Rs 29.0 billion. The figure in the Final Estimates stands at Rs 30.7 billion, the increase being accounted for by:

- a) Ad Valorem Duty on tea Rs 300 M (DE Rs.1,030 M)
- b) interest on investment in Sinking Funds by Joint Investment Fund Rs 500 M (treated as income and not of the Funds)
- c) Contribution by the Ceylon Petroleum Corporation towards Kerosene subsidy Rs 210 M (treated as item of revenue)
- d) revenue from Budget proposals
Rs. 1710 M

Rs. 2,720 M

The overall Budget deficit for 1984 according to the Final Estimates stands at Rs 16.5B (the interim figures were: Draft Estimates Rs. 23.4 B. and Revised Estimates Rs 18.2B).

Taxation

The Budget Proposals are designed to bring in Rs 1,710 M – A breakdown of the figure and comments thereon follow:

1. Income Tax

a) The exemption limit of Rs 12,000 of a resident individual's Assessable Income which was fixed in 1979, – is being increased to Rs 18,000 from the Year of Assessment 1984/85. This is a welcome relief especially to those employed in the Private Sector. There was a persistent clamour by the employees of this sector for relief in view of the exemption of employment income of those in the public sector as well as the steady rise in the cost of living due to inflation. The demand, indeed was for the complete exemption of the employment income of the private sector too, on the principle of equal treatment of all employees or an increase in the exemption limit in keeping with the rise in the cost of living.

The increased exemption limit will not apply to non-resident individuals nor to expatriate employees, since they are not entitled to the tax free allowance now.

(b) Besides the raising of the exemption limit, the Income Tax Slabs applicable to Taxable Income are being widened, which in itself brings a further relief and serves as an added benefit to those earning lower incomes. The present Rate Schedule introduced in 1979, has been structured on a 10 tier slab basis, rising progressively from 7½% to 50% with a residual rate of 55% on the balance. The first 8 slabs consist of Rs 4,800 each with the 9th and 10th slabs containing Rs 7,200 each.

The proposed Rate Schedule applicable from the Year of Assessment 1984/85 has the first 8 slabs at Rs 6,000 each with the 9th and 10th slabs containing Rs 9,000 each, the residual rate on the balance being at 55%.

Under the present Rate Schedule, with the exemption limit of Rs 12,000 a resident tax payer reached the highest slab of 55% on an income of over Rs 64,800. In the proposed Rate Schedule, with a tax free allowance of Rs 18,000 he will reach this highest rate, if his income goes above Rs Rs 84,000.

Since the present Rate Schedule is applicable to both resident and non-resident individuals, the proposed Schedule will apply to both categories. The non resident tax payer is, however not entitled to the tax free allowance. The following table shows the present and proposed Rates as well as the tax payable.

If the individual had any Qualifying Payments (Q/PP) (Donation to Government; Approved Expenditure; Investments in Quoted Public Companies; Approved Investments (e.g. housing loans, etc) Donation to approved charities: Premia on Life; Annuity or Medical Insurance Policies; Contributions to Provident/Pension Funds and Subscriptions to Professional Associations) he would get an exemption of his Assessable Income upto 1/3 of his Assessable Income and in certain instances 100%.

In the above example, if the Qualifying payments are limited to 1/3 of Assessable Income, the position would be as follows:-

The revenue loss of these changes is estimated at Rs. 100 M. Income tax is levied on personal and corporate incomes in addition to Capital levies such as Wealth Tax, Gifts Tax and Estate Duty. The Revenue Estimates for 1983 showed a yield from Direct Taxes:

Rate	Present (Exemption limit Rs 12,000)		Proposed (from year of Assessment 84/85) (Exemption limit Rs 18,000)	
	Taxable Income	Tax	Taxable Income	Tax
7½%	4,800	360	6,000	450
10%	9,600	840	12,000	1,050
15%	14,400	1,560	18,000	1,950
20%	19,200	2,520	24,000	3,150
25%	24,000	3,720	30,000	4,650
30%	28,800	5,160	36,000	6,450
35%	33,600	6,840	42,000	8,550
40%	38,400	8,760	48,000	10,950
45%	45,600	12,000	57,000	15,000
50%	52,800	15,600	66,000	19,500
55%	Balance		Balance	

Example

	Present	Proposed
Resident individual –		
Income from all sources	Rs 30,000	Rs 30,000
Less: Tax free allowance	12,000	Rs 18,000
	Rs 18,000	Rs 12,000
Tax on Rs 14,400	Rs 1,506	Tax on Rs 12,000 – Rs 1,050
Balance	720	First 6,000 @ 7½% – 450
at 20%	Rs.3,600	Next 6,000 @ 10% – 600
	Rs.18,000	Rs.1,050
	Rs 2,226	
	Present Rs 2,226	
	Proposed 1,050	
	Relief 1,176	

	Present		Proposed
Income from all sources	Rs. 30,000		Rs.30,000
Less: Tax free allowance			
	Rs. 12,000	Rs. 18,000	
Q/PP	Rs. 10,000	Rs. 10,000	Rs.28,000
Taxable Income	Rs. 8,000		Rs. 2,000
Tax on Rs. 4,800	Rs. 360	Tax on 2,000 @ 7½%	Rs 150
Balance		Therefore tax payable	Rs.150
at Rs. 3,200	Rs. 320		
Tax payable	Rs. 680		

Income Tax Rs. 570 M
Corporate Tax Rs 3,030 M

The additional Revenue from Income Tax for 1984, according to the proposals, is Rs 200 M (i.e. Rs 300 M from the changes under "8 Tax Evasion", below less Rs 100 M revenue loss under "1. Income tax", above).

2. Rehabilitation Levy

A levy of 1% on the gross remuneration of all employees in the Private and Public Sectors will be imposed during the Calendar Year 1984. This will apply to public servants including Ministers and Members of Parliament as well as Pensioners who are now exempt from Income Tax.

The purpose of this imposition is to recoup at least partly the heavy expenditure the Government had to incur due to the ethnic violences that erupted in July, 1983. The estimated Revenue from this levy is Rs. 200 M.

3. Rehabilitation Surcharge

This proposal prompted by the same reason as for the Rehabilitation levy is a once-and-for-all charge to be imposed on individual companies, bodies of persons and individuals for the Year of Assessment 1984/85 at the rate of 10% on Income Tax payable for that year. The anticipated Revenue is Rs 400 M.

4. Tax Holiday for Exports

Tax Holiday to Companies for exports and for provision of services for payment in foreign currency, was provided for under Section 20 (1) (b) of the Inland Revenue Act (IRA) for five years from the date of first exports or commencement of provision of services. The Holiday was limited to those Companies approved by the Minister, prior to March 31, 1983, by an Amendment passed in 1982.

The proposal is to extend this concession not only to Companies but also to Partnerships and Individuals with a view to giving a fillip to the development of exports. The rationale behind the proposal is the encouragement of exports because their contribution to the Gross Domestic Product is 1/3, and employment 1/4, while yielding about 1/5 of Government revenue.

The main features of the proposal are:—

- (a) Companies' Partnership and Individual will be eligible to a Five Year Tax Holiday which was earlier limited to Companies formed after April 01, 1972. The restriction in regard to the date of incorporation of the company is being lifted.
- (b) The Tax Holiday will apply to exports of non-traditional products (tea, rubber and coconut exclu-

ded) or the rendering of specified services by above three categories in respect of —

- (i) Ship repairing and ship breaking services, and
- (ii) production and export of Computer Software and Computer related services irrespective of whether the business had enjoyed a tax holiday earlier or not,
- (c) the period will cover 1984/85 to 1988/89.
- (d) Companies newly incorporated for above activities (see b) will be treated as approved undertakings under Section 3 (9) (b) of I.R.A. to enable investors to claim 1/3 of Assessable Income as a deduction under Q/PP. (Also see note)
5. Subsidies for Production

Certain subsidies or grants to producers are exempt from Income Tax under Section 13 of the Inland Revenue Act. Substantial increases in the subsidies paid for —

- a) replanting of tea,
 - b) infilling of vacancies on tea land,
 - c) replanting and/or underplanting of coconut lands,
 - d) new planting of coconut lands, and
 - e) rehabilitation of coconut lands
- have been announced with a view to granting incentives for increased production in the Plantation Sector.

Note

1. Garment exports will qualify for the Tax Holiday only on Profits earned from exports outside the quotas. Those exports within the quotas will not qualify for the concession hereafter, but business already approved will continue to enjoy the benefit.

2. Consequent on the fall of gem exports through official channels the Gem Auctions - held by the Ceylon Chamber of Commerce had been discontinued. A scheme is being drawn up by the State Gem Corporation, with the help of the Export Development Board to encourage Gem Exports through official channels. The value of gems exported through official channels fell from Rs 663 M in 1980 to Rs 393 M in 1982.

6. Import Substitution

A Five-year Tax Holiday has been proposed to grant investment relief under Q/PP to Companies engaged in activities such as:—

- a) the production and processing of sugar,
- b) the production and processing of milk and milk products,
- c) livestock,
- d) fisheries, and
- e) specified agro-based industries.

This is with a view to encouraging investment in these priority areas.

7. Non-resident Foreign Currency Accounts

The interest accruing and the capital in these accounts are now exempt from Income and Wealth taxes during the period the holders are non-resident and for 3 years of their return to the Island. The proposal is to exempt them from the respective taxes for an additional period of 3 years for a total period of 6 years after their return. This is to make the scheme more beneficial to the holders.

8. Tax Evasion

The Minister stressed that evasion of Income Tax, Turnover Tax, Custom Duties and other taxes is rampant in the country. Although the money incomes have increased all-round during the last six years due to accelerated economic development, the tax exemptions, holidays and incentives that had been granted of late had resulted in the erosion of the tax base itself and therefore tax concessions which are no longer justified have been removed. It was said that effective action would be taken administratively to enforce collection more vigorously, with a view to increasing revenue. The following measures are contemplated in this regard:—

- a) Streamlining of the Inland Revenue procedures and techniques,
- b) taxing the non-monetary benefits such as housing, transport, etc. of the private sector executives

more realistically in their hands and where they are not taxed, the disallowance of a deduction of such amounts to the employees, and

- c) the reintroduction of the withholding tax at 20% on dividends declared by Quoted Public Companies.

The additional revenue expected from these measures is Rs. 300 M.

9. Turnover Tax

The Minister commented on a predominantly large scale evasion of over Tax and attributed it to the high rate of tax on trading activities and the undesirable cascading effect it has. The following changes were announced to be effective from 17.11.1983.

General Trading:

- a) Wholesale, retail and other distributors

Reduction from 4% to 1%

- b) Excepted Articles

This list is revised to limit the number of items in view of the reduction of the general rate to 1%.

The items are:

Books (excluding magazines, periodicals and newspapers), Bread, Crude oil and aviation fuel, exports — articles manufactured in Sri Lanka and exported by the Manufacturer, Infant milk food ONLY at the point of manufacture or import.

The following articles which were excepted at Wholesale and Retail are now liable at these points at 1% as well as at the import point at prescribed rates indicated within brackets where applicable.

Cement (15%); Cigarettes (40%); Fertilizer (3%), Infant milk food; Liqueur (20%); Paddy; Petrol; Diesel Oil, Kerosene Fuel, Naptha and Bitumen (4%); Rice uncooked, rice flour, wheat and wheat flour (also at point of milling) (4%) and sugar (15%).

The following articles which were declared excepted articles effective from 2.6.83 are liable at both wholesale and retail points with effect from 17.11.83 at a general rate of 1%.

Cardamon, Cinnamon, Cloves, Green tea leaf, Nutmeg, Pepper and Rubber. (Also see note)

- c) Business of a Manufacturer or an Importer

The following changes are effected at the point of manufacture or import:

	<u>Old</u>	<u>New</u>
(i) Reduction of rate:		
Fertilizer	4%	3%
Jams, Fruit Jellies, & Marmalades	10%	6%

- (ii) (a) Rates remain unchanged at 4%
Mineral fuels, mineral oils and products of their distillation.
Pharmaceuticals
Plywood Chests and Tea Chests,
Rice and Rice Flour.

- (b) Rates on other items now taxed at 4% is increased to 6%

	<u>Old</u>	<u>New</u>
(c) Rate increased		
Wines (other than Sacramental wine)	10%	15%

- (iii) Rate remains unchanged in respect of;

- a) Sugar 15%; (b) Arrack 20%;
- c) Beedi 20%; (d) Cigarettes 40%
- e) Cigars 20%; (f) Pipe tobacco 20%; (g) Whisky, Brandy, Gin, Rum, Liquors and other fermented beverages (other than beer and wines) 20%.

Note

Paddy which was an excepted article has been removed from the list. The item has been added on to the list of Exempt businesses under 'Any business for the cultivation of tea, rubber, coconut or paddy. This is in order to give an incentive to the paddy cultivator who will now be exempt on the turnover of paddy sold by him.

(iv) **Other Items – Rates increased as follows:**

Old	New
4%	6%(See (c)(ii)(b) above
7½%	10% (residual)
10%	15%
15%	20%

(d) **Business (including professions & services trades)**

	Old	New
(i) Reduction of Rates:		
The business of Leasing Plant, & Machinery, Agricultural and Industrial Equipment	4%	3%

(ii) **Rates remain unchanged:**

All other business – Rates varying at 5% and 10%

(e) **Tourist Hotels:** Reduced rate from 15% to 10% effective from October 21, 1983. Continues unchanged.

The additional revenue anticipated from these changes is Rs. 400 M.

10. **Excise Duties (effective from 17.11.83)**

Increase: Effect

(a) Tobacco by Rs 1.50 per kg.	All brands of cigarettes up by .02 per cigarette.
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NOTE

1. The Minister announced that a stipulated percentage of 1% tax (wholesale, retail and other distributors in the general trade would be set apart as a part of the Government Grant to the Local Authorities in exchange for their assistance to the Inland Revenue Authorities in the identification of Turnover Tax Payers and the detection of cases of non-compliance (non-payment and underpayment). The assistance of the G.A.A, and A.G.A.A and G.S.NN has been solicited in assessment and collection of ALL Taxes.

(b) **Liquor**

(i) **Special arrack by Rs. 5/- per proof litre**
Up by Rs. 3/- per bottle

(ii) **Coconut Arrack**
by Rs 6/- per proof litre
Up by Rs 3/- per bottle.

(iii) **Reductions**

Locally produced Foreign type liquor by Rs 33/- per proof litre down by Rs 16/50 per bottle.

The additional revenue anticipated is –

- (a) Tobacco Tax Rs 100 M, and
- (b) Excise Duties (liquor) Rs 90M

11. **Import Duties**

(a) **Abolition of Import Duty on books and periodicals with effect from 17.11.83.** This measure results in a revenue loss of Rs 10M

(b) Measures have been proposed to strengthen the machinery for the effective collection of duties, which when implemented would bring in an additional revenue of Rs 40 M resulting in a net additional sum of Rs 30 M (taking into account the loss of Rs 10M under (a) above. (See Note Below)

12. **Passport Fees**

An increase from Rs 100 to Rs Rs 200 per passport. The additional revenue anticipated, is Rs 40M.

13 **Government Rents**

a) **Land:**

An increase of 1% (from the present 4% to 5% on Rents on Government Lands (from allottees under the Crown Lands Ordinance, Forest Ordinance and Land Development Ordinances).-

NOTE

2. The Minister announced that his proposal made in the 1982 budget speech, to levy duties on all imports by Government Departments, will be implemented from January, 1984.

b) **Buildings:**

An increase by 25% of the rent charged from non-government bodies and on houses rented to Public Servants.

The additional revenue expected under (a) and (b) is Rs 10 M.

14. **Other Government Fees:**

An increase by 25% on fees charged for – (a) Survey, (b) Valuations, (c) Testing Motor Vehicles, (d) Driving Licences, etc. Additional revenue is estimated at Rs 20 M.

15 **Fees and Charges**

(a) **Postal Service**

Charges have been revised to be effective from 1.12.83. Estimated additional revenue is Rs 30 M.

(b) **Telecommunication Service Charges**

Telephone calls – charges (effective from 1.12.83) – Telephone calls –charge increased from .70 to .90 per call, and Rental of private telephones increased from Rs. 250 to Rs 350/- – from 1984.

Expected additional revenue is Rs 90 M.

With the expected gross additional revenue of Rs 1,710 from the Budget proposals, the overall deficit stands at Rs 16,543 M according to the Final Estimates of Revenue and Expenditure. The Minister hopes to bridge this gap as follows:–

(a) Outright grants (Foreign)	Rs. 4,150 M
(b) Project, Commodity & other loans from Foreign Sources	Rs. 8,162 M
(c) Rupee Loans (domestic)	Rs. 3,550 M
(d) Banking System	Rs. 681 M
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	Rs. 16,543 M