

TAXATION MEASURES OF BUDGET 1989

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INCOME TAX

SURCHARGE ON INCOME TAX AND WEALTH TAX

A 15 percent surcharge on the amount of income tax and wealth tax will become payable for the years of assessment 1989/90 and 1990/91 in two equal installments in August and November in the year of assessment.

Since the liability will be on a current year basis and therefore cannot be correctly ascertained, it is anticipated that the law will provide that no penalty will be payable if the installment of surcharge payable is computed by reference to the income tax and wealth tax payable for the preceding year, any short fall being paid on or before the end of November in the following year of assessment. Surcharge on employment income will be collected monthly under the PAYE scheme.

Sri Lankan tax payers are now familiar with the Surcharge method of collecting additional tax which has been adopted as a convenient measure also in previous years. We have had surcharges as follows:—

Year	Rate of Surcharge	Exemptions:
1978/79	20%	Companies—Dividend tax & Remittance tax Employees—Employment income for April to December 1978.
1980/81	10%	Companies—Dividend Tax & Remittance Tax Employees—Terminal Benefits (Administrative Concession) Income of non-national employees paying tax @ 25%
1981/82	On Income Tax Rates of 5 to 15% with marginal relief On Wealth Tax 10%	Companies—Dividend Tax & Remittance Tax Employees—Terminal benefits Income of non-national employees paying tax 25%
1984/85	10%	As above

The legislation relating to the surcharges for 1981/82 and 1984/85 provided that the aggregate of income tax, wealth tax and surcharge should not exceed 80 percent of (assessable income plus exempt income other than net annual value of residence and subsidies).

This limitation was applied as an administrative concession for 1980/81 but no such relief was granted for 1978/79.

In view of reports that emoluments of public servants that emoluments of public servants

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which are now exempt may be taxed, the Hon. Prime Minister and Minister of Finance has emphasised that the surcharge will apply only to persons who pay income tax and wealth tax and that "it was this Government which granted exemption to the public servants on their official emoluments."

A Section of the tax payers that may have been granted relief is the middle class private sector employees. They are now being subjected to a surcharge whereas public servants who perhaps with some justification are exempt from income tax will be exempt also from the surcharge. A relief by way of at least an earned income allowance may have been justified in these circumstances.

In the recent past the effective marginal rates of tax for individuals which have come down progressively from 60.5 percent in 1984/85 to 55 percent in 1985/86, to 40 percent in 1988/89 now with the levy of a surcharge, will record an increase to 46 percent for 1989/90 and 1990/91. Similarly tax rates of companies which also recorded a progressive reduction up to 1988/89 will now record a small increase for 1989/90 and 1990/91. In this connection, see Annex 1 (a)

Annex 1 (b) is a table of comparative taxes payable for the years of assessment 1987/88, 1988/89 and 1989/90. Tax payers below the range of approx. Rs.208,000 will pay for 1989/90 slightly more taxes than in 1988/89 or 1987/88 and those above this figure will pay more than in 1988/89, but less than in 1987/88 notwithstanding the surcharge since the marginal rate for 1987/88 was 50 percent and that for 1989/90 is only effectively 46 percent including the surcharge.

TREASURY BILLS HELD BY CENTRAL BANK - A NON REFUNDABLE TAX OF 9 PERCENT

A non refundable withholding tax of 9 percent on the face value of the treasury bills held by the Central Bank is being imposed. The payment of interest by Government to the Central Bank was reflected as expenditure in this Budget, while this same interest received by the Central Bank forming part of its income flowed back to Government. This tax will now be reflected as revenue, thus neutralising the position.

Treasury bills held by persons other than the Central Bank will not be liable to the non-refundable withholding tax. An announcement made by the media (not the press) immediately after the Budget Proposals did not state the position clearly and there was concern amongst investors for a short time on this account.

A problem area could be in regard to Treasury Bills traded in the Secondary Market. If the 9 percent is collected at point of issue, it will result in excess transfer of revenue and if at point of maturity it will cause immense hardship. This matter is being looked into.

ANNEX 1 (a)

MARGINAL RATES OF TAX, SURCHARGE AND EFFECTIVE TOTAL TAX

INDIVIDUAL

Y/A	Marginal Rate	Surcharge	Effective Total Marginal Rate
1984/85	55%	10% (Maximum)	60.5%
1985/86	55%	-	55%
1986/87	50%	-	50%
1987/88	50%	-	50%
1988/89	40%	-	40%
1989/90	40%	15%	46%

COMPANIES

Y/A	Marginal Rate			Surcharge	Effective Total Marginal Rate		
	Qtd.	Unqtd.	Non.Res.		Qtd.	Unqtd.	Non.Res.
1984/85	40	50	55	10%	44	55	60.5
			+ 11.11				+ 11.11
1985/86	40	50	50	-	40	50	50
			+ 11.11				+ 11.11
1986/87-88/89	40	50	50	-	40	50	50
			+ 11.11				+ 11.11
1989/90	40	50	50	15%	46	57.5	57.5
			+ 11.11				+ 11.11

ANNEX 1 (b)

TAX PAYABLE

INDIVIDUAL

Income	Slab	Rate	Tax on Slab	1987/88	Total Tax 1988/89	1989/90 Incl. 15% Surcharge
27,000	27,000	Tax Free	-	Nil	Nil	Nil
48,000	21,000	10	2,100	2,100	2,100	2,415
72,000	24,000	20	4,800	6,900	6,900	7,935
96,000	24,000	30	7,200	14,100	14,100	16,215
120,000	24,000	40	9,600	23,700	Balance at 40%	Balance at 46%
				Balance at 50%		

For Instance

INCOME	1987/88	1988/89	1989/90
50,000	2,500	2,500	2,875
100,000	15,700	15,700	18,055
150,000	38,700	35,700	41,055
200,000	63,700	55,700	64,055
208,875	68,137	59,250	68,137
300,000	113,700	95,700	110,055
400,000	163,700	135,700	156,055
500,000	213,700	175,700	202,055

WITHHOLDING TAX ON GOVERNMENT SECURITIES AND TREASURY BILLS

With a view to greater tax compliance Banks and Financial Institutions were required to deduct from interest payable by them on or after 1.4.86, a sum of 20 percent (or such lower percentage as may be directed by the Commissioner-General of Inland Revenue) in respect of deposits made by any person in his own name or in the name of some other person.

This deduction was not required in the case of Government Securities, and since it applied only to monies deposited by a person in his own name or in the name of some other person, the deduction requirement did not apply also to Certificates of Deposits as these were bearer bonds. Changes have now been made as follows:-

a) Treasury Bills

Tax will be withheld. However, as Treasury Bills are issued at varying rates of discount, as a matter of convenience, it has been decided to withhold tax by reference to the face value at a rate of 2.5 percent per annum. It may be noted from the following tables based on the tenders accepted for the week-ending 17.03.89, that the proposed withholding approximates to 20 percent of the Discount.

Maturity Period	Face Value	Weighted Av Bid Price	Discount	If at 20% on Discount	Proposed Withholding (2.5%) on face value
Months	Rs.	Rs.	Rs.	Rs.	Rs.
3	1000	968.52	31.48	6.29	6.25
6	1000	934.58	65.42	13.08	12.50
12	1000	862.09	137.91	27.58	25.00

b) On other Government Securities:

20 percent will be withheld on the interest payable.

c) Certificate of Deposit:

These will now be liable to a stamp duty in lieu of the withholding tax. Please see comments under 'Stamp Duty'

Changes referred to under (a) and (b) will require an amendment to the law.

TAX ON PROVIDENT FUND

The taxation of Provident Funds has seen many changes in the recent past. Provident funds approved by the Commissioner General having previously been exempt from the payment of income tax, the Hon. Minister of Finance in his Budget Speech for 1987 observed that

"no tax has been charged on the investment income of these approved funds in the past, mainly because their monies had been earlier invested almost exclusively in low income bearing Govt. Securities. This is no longer the case today. The major part of the monies of these approved funds are now invested in Bank fixed deposits and company shares. It is difficult to justify the exemption from tax of the investment income of these funds when even approved charities are taxed on their investment income."

He therefore proposed to levy a tax of 20 percent on the investment income of these funds other than on income derived from Govt. Securities. Liability arose on investment income earned on or after 1.4.87.

Trustees of many Provident Funds argued that these were monies held in trust for their employees and if they had invested the monies wisely bringing a better return, the levy of a tax for that reason would amount to a penalty for efficient management. It was also pointed out that the Provident Fund would be liable to tax and once again when distributed the employee would, subject to the exemption, be liable to tax thus reducing further their retirement benefits.

In the subsequent year, apparently in view of these representations, the Minister announced that any distributions out of that portion of the Provident Fund money which represents the investment income which has already been taxed in the hands of the fund would be exempt in the hands of the employee. This exemption applied retrospectively as from 1.4.87.

It is now proposed to tax from 1.4.89 all investment income, whether from Government Securities or not, but at only 10 percent, as against the original rate of 20 percent. In that event all distributions out of all such income will also be exempt. The principal beneficiaries will be those receiving large terminal benefits, since they would effectively be taxed at only 10 percent (being the tax paid by the Provident Fund) instead of the maximum 15 percent to which they would have been liable. On the other hand, the employee who receives a relatively small terminal benefit and therefore would have been exempt will effectively suffer a 10 percent tax, and on the income of the last two years, 20 percent tax. He will therefore be worse off. It might have been best if none of the above changes have been made.

EXEMPTION ON DIVIDEND INCOME UP TO RS.12,000 - WITHDRAWN

The provisions relating to distribution of exempt profits as exempt dividends and the further distribution of such exempt dividend income by companies remain unchanged.

Apart from the exempt dividend income as above which is exempt all dividend income which would otherwise have become liable to tax were exempt upto an amount of Rs.12,000/-.

The then Minister of Finance in his Budget Proposals for 1985 had referred to the economic double taxation of company profits, viz. first on the company and then again when the profits are distributed, in the hands of the shareholder,

and observed that "the present system of taxation has also inhibited the development of an active share market which is a pre requisite for a healthy corporate sector. The Government intends to do everything possible to encourage company information and the growth of the share market."

The then Hon. Minister of Finance therefore proposed "to exempt from income tax dividend income up to Rs.12,000 per year received by an individual and observed that "the small investor will as a result be totally exempt from income tax on dividends received by him." and hoped "this measure will reduce the incidence of tax, promote broad based share ownership and encourage active participation in the share market."

The Government has since partially relieved economic double taxation by the introduction of a half imputation system. It is hoped that in the near future when conditions permit that this will be extended to full imputation.

Provisions have also been made to encourage conversion of proprietary and partnership business into limited companies by treating these as a continuing business and deferring of any gains or losses arising from conversion for assessment when such assets are ultimately disposed by the company.

There has however been some criticism in regard to the exemption of dividend income of Rs.12,000 on the basis that this exemption is inequitable in that the tax payers in the higher income bracket benefit at their marginal rates of 40 percent whereas to the smaller tax payer benefit is small or insignificant. Just a few countries have similar small exemptions but these are more for reasons of administrative convenience.

In the above circumstances, and with the move towards imputation the withdrawal of the dividend exemption from 1st April 1989 may be justified.

It may be noted that if dividends are declared before 31st March, 1989, the following benefits may accrue:

- a) to the share holder
 - i) the above dividend exemption of Rs.12,000 would be available
 - ii) the surcharge on income tax would not apply
- b) to the company
if the declaration is out of profits for the year ended 31st March, 1989 the imputation tax will be available to the extent of half against the tax payable for the year of assessment 1988/89.

ADMINISTRATIVE PROVISIONS - APPEALS

In the representations made to the then Hon. Minister of Finance & Planning, it was pointed out that

" a far greater degree of compliance can be expected where the tax system, the administration and the laws are fair. The tax payer should be assured that he has a fair deal. Most countries have therefore taken steps in this regard. For instance, in Indonesia, it is provided that unless an appeal is settled within one year the appeal will deem to have been allowed and in Canada the tax disputed is not payable till determination and a penalty will be payable only if it is considered that the appeal was made mala fide. Certain provisions or perhaps the ab-

sence of provisions in our revenue laws have no parallel in other countries."

The Hon. Minister of Finance & Planning having considered these representations announced in his Budget Speech for 1987 that

"every petition of appeal preferred on or after April 1, 1987 shall be agreed to or determined within 2 years from the date on which such petition of appeal is received by the Commissioner-General, unless the adjustment or determination of such appeal depends on the furnishing of any documents or the taking of any action by any person other than the appellant or the Commissioner-General or an assessee. Where such appeal is not agreed to or determined within such period, the appeal shall be deemed to have been allowed and tax charged accordingly. The receipt of every appeal received shall be acknowledged and the date of the letter of acknowledgement shall be deemed to be the date of receipt of such appeal."

This was a most welcome provision and has resulted in the Dept. taking up appeals lodged for early settlement. The proposal to extend the period of 2 years to 3 may also perhaps be justified but the entire provision can be nullified by the proposal that the time limit will not apply when a tax payer fails to furnish information and other particulars called for to settle the appeal.

There have been instances, where information has been called for some times even after almost 25 years quite apart from the appeal not having been taken up for settlement for many years. The correct procedure if a tax payer fails to furnish information and other particulars called for is to determine the appeal in favour of the Revenue. An amendment as proposed will enable the Dept. to keep the appeal open indefinitely as before.

Tax payers are not unconscious of the demand for "arrears of taxes" being called for, for periods of 15 to 20 years earlier. This means that every tax payer will have to keep his records indefinitely notwithstanding the liability having been agreed and taxes paid. In the U.S. for instance, the taxes cannot be collected after a period of 6 years. On the other hand Sri Lanka still has some unique legislation, for instance that which enables the Revenue Authorities to issue assessment at any time even say 50 years later merely on the grounds that the tax payer had made a late return even though such return may have been correct in all its aspects.

While on the one hand tax payers must comply by making correct and complete returns in due time, the Revenue Authorities should also create a climate of confidence in which the tax payers should feel that its pays to be honest. While every effort is being made by the Commissioner-General and his Commissioners to instill confidence in the minds of tax payers, legislation of the above nature are counter-productive.

E.P.F. & E.T.F. CONTRIBUTIONS BY EMPLOYERS DOUBLE DEDUCTION IN CERTAIN INSTANCES

New undertakings which create employment under the Jaha Saviya Programme will be permitted a double deduction of the employers contribution to the Employees Provident Fund and Employees Trust Fund for tax purposes if it is in respect of a new industrial or agricultural undertaking with

employment opportunities for at least 10 persons in specified areas of high unemployment or those covered by food stamps/Jana Saviya Programme. The incentive of allowing double deduction has been adopted also by other countries. For instance, Singapore had allowed a double deduction of Research & Development expenses in approved undertakings and of expenses incurred in promoting Singapore manufactured goods at approved overseas trade fairs and exhibitions.

STAMP DUTY

CERTIFICATES OF DEPOSIT

Please see para 3 under Income Tax. There has been considerable criticism that whereas interest paid by Banks and Financial Institutions were liable to a withholding tax, Certificates of Deposits were exempt. A corresponding amount was therefore intended to be collected by way of a Stamp Duty. This need not be collected as a withholding tax since it would not be a tax withheld which would be claimed by a tax payer since, as the Hon. Prime Minister and Minister of Finance has stated, these are under "the scheme of Certificates of Deposits in Commercial Banks (which) was introduced some time back to encourage hoarder of black money to bring such money into circulation."

It is also best that it is collected as a stamp duty and not as a withholding tax as it may have created a certain degree of panic amongst such depositors resulting in their withdrawing such deposits as did happen to some extent in the case of other deposits with Banks and Financial Institutions when the scheme of withholding tax was originally introduced.

The stamp duty applies also to the Treasury Certificates of Deposits.

The amount payable is 3 percent. If it had been on a per annum basis, as may be seen from Annex 111, the stamp duty would have been approximately equal to the tax that would have been withheld on the discount at 20 percent on current rates of discount. However, as the gazette notification prescribes just one rate of 3 percent on the face value irrespective of the period of the collection the duty collected will not be as apparently intended. As gazetted now it is inequitous and is due to be amended.

ANNEX 111 CERTIFICATE OF DEPOSIT PROPOSED STAMP DUTY COMPARED WITH WITHHOLDING TAX

Period	Nominal Value	Purchase Price	Discount	If Withheld at 20% p.a. on Discount	Stamp Duty at 3% on NV if on p.a. basis
6M	100,000	94,340	5,660	1,132	1,500
12M	100,000	86,207	13,393	2,759	3,000
24M	100,000	73,529	26,471	5,294	6,000
36M	100,000	62,500	37,500	7,500	9,000

Pl. Note:

The notifications require payment of stamp duty on the face value at 3% (irrespective of the period). This will mean that a Certificate of Deposit for Rs.100,000 will be liable to a stamp duty of Rs.3,000 irrespective of the period, whereas if the period was taken into account it would have been as in the last column and comparable with a withholding tax of 20%.

Under the Inland Revenue Act these discounts are not exempt from tax. Persons declaring this income should not therefore invest their funds in Certificates of Deposit for the reason that the Stamp Duty, being not a withholding tax, will not be available for credit and they will end up paying both stamp duty and income tax.

TURNOVER TAX

WITHHOLDING TAX ON SALES BY MANUFACTURERS/ IMPORTERS

Most countries are now placing greater emphasis on Consumption Tax. This has the major advantage that persons outside the tax net who invariably have the capacity to and in fact incur considerable amount of wasteful expenditure are thereby brought into the tax net. This is possibly very relevant in the Sri Lankan context.

Of course it may be argued that Consumption Tax may cause some hardship to the poorer sections of the community but this can be overcome to a large extent by the grant of exemptions for essential commodities. In practice this should work as the pattern of expenditure of the wealthier classes will be that a major part of their consumption will be on luxuries and therefore they would contribute proportionately more to Consumption Tax whereas in the case of the poorer sections a major part of their consumption will be in respect of items which would be exempt.

Value Added Tax (VAT) is being favoured by most countries mainly for the reason that the cascading effect of taxation at different points is done away with and also it would be self policing in that the tax collected by the seller at the point of sale is allowed as credit to the buyer against his tax, resulting in a chain of transactions. There is already a VAT System in operation in Sri Lanka where a manufacturer or importer sells to a manufacturer. However this chain of transactions of input tax credit is broken when a sale is made to a non-manufacturer.

The Minister has therefore taken a further step in this direction by requiring the withholding of 1 percent by all manufacturers and importers on all sales other than of excepted articles made by them. This 1 percent collected will be paid quarterly with his own taxes.

There can be certain practical problems for instance where an importer also deals in articles purchased by him in the local market.

Under the proposed system which requires an amendment to the law, to be made effective from 1.4.89 a trader who is not a manufacturer will be able to claim the credit of 1 percent withheld against the turnover tax payable by him whereas a manufacturer who purchase from a manufacturer or importer will be able to claim as credit this 1 percent withheld in addition to the input credits he would have been entitled to under the old scheme. In this connection, please see Annex 11. All input credits, as now, can be deducted from the tax payable for the quarter in which they have been paid, and to the extent that they cannot be deducted, carried forward for deduction in the following quarter and so on. Such excess will not be available for refund. However, representations have already been made in regard to the excess carried forward by importers and manufacturers that these be refundable. The same considerations will apply in this instance too and it is expected that provision enabling a refund will be made shortly.

OTHER CHANGES (EFFECTIVE FROM THE MID-NIGHT OF 16/17TH MARCH 1989)

1. Rates Importers at point of import, and manufacturing business at point of sale

Coconut oil (previously exempt) - 5%

Luxury items
Cosmetics & Toilet preparations
(example: perfumes, eau-du-cologne, toilet powder, hair dyes & hair tonic) but excluding soaps, tooth paste and tooth powder - 40%

Carpets, mats and tapestries
(coir carpets & rugs - no change - 12%) - 40%

Solar electric panels (now 12½%) - 3%

Non-manufacturing business
Sales made by Duty Free Shops (now 10%) - 20%

Considerable concern has been expressed as to whether the Duty Free Shops will be able to pass on this additional 10 percent. Of course in the light of an increase in the rate applicable to importers of luxury articles an increase on the rate applicable to the sales by Duty Free Shops, a large proportion of which are to Sri Lankan nationals, the increase may be justified.
Excepted Articles

It has been the policy of Government to promote exports and several incentives had been granted, including the exemption from Turnover Tax for exports.

This exemption is now being extended to gems and jewellery sold (whether by a trader or a manufacturer) for payment in Foreign Exchange by persons authorised by the Central Bank of Sri Lanka, on the basis that these sales are as beneficial as exports, to Sri Lanka.

ANNEX 11

TURNOVER TAX DEFINITION OF "TURNOVER"

1. IN THE CASE OF AN IMPORTER

- 1.1 At point of import:
The aggregate of
i. CIF (Value as ascertained for Customs Duty)
ii. Custom Duty
iii. 10 percent of (i + ii)

- 1.2 If Sold:
The total amount received or receivable

2. IN THE CASE OF A MANUFACTURER

- 2.1 If sold to another manufacturer
The amount received or receivable before adding amount due, as turnover tax

- 2.2 If sold to any others
The total amount received or receivable.

Contd.

3. IN THE CASE OF A TRADER (Not being a 'Manufacturer')

The total amount received or receivable.

I ARTICLES IF IMPORTED AND SOLD IMPORTER

CIF	100	
Duty (Say)	50	
	150	
Turnover Tax (say) 20%	33	(a) (20% of (150 + 50 = 165 Pl. see Definition 1.1))
	183	
If other expenses & Profit (Say)	120	
is sold for	303	
	===	

A. UNDER SCHEME PRIOR TO 1.4.1989

1. If sold to a Manufacturer 2. If sold to any others

The bill will be as follows:
Selling Price 300
Turnover Tax (1%) 3 (b)

Total Received or Receivable 303
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Note:

The manufacturer can claim as a credit against the turnover tax payable by him, the aggregate of (a) + (b) i.e. : 36
The importer will pay on his sale, turnover tax of 1% of 300 viz: 3

The bill will merely show the total selling price of 303
===

A trader selling this for (say) 400 will pay turnover tax of 4 (i.e. 1% on his selling price)
The importer will pay on his sale, turnover tax of 1% of 303, viz: 3.03

II. ARTICLES IF MANUFACTURED AND SOLD MANUFACTURER

C. UNDER OLD SCHEME

1. If sold by Manufacturer (M1) to another Manufacturer (M2) 2. If sold by Manufacturer (M1) to any others

The bill will be as follows: The bill will be merely show

Selling price (say) 250		Selling Price of 275
Turnover tax at Manufacturer's rate (say 10%)	25 (d)	---
Received or Receivable	275	---
	===	

NOTE:

The second Manufacturer (M2) will claim (d) from the turnover tax payable by him.

A trader selling this (say) for 400 will pay turnover tax of 4 (i.e. 1% of his selling price).

Manufacturer (M1) will pay Turnover Tax (d) 25 (less turnover tax if any charged on his inputs by another manufacturer, or turnover manufacturer, or turnover tax (a + b) paid by an Importer as in Example. A1)

Manufacturer (M1) will pay 10% of 275, i.e. 27.5 (less turnover tax if any charged on his inputs by another manufacturer, or turnover tax (a + b) paid by an Importer as in Example A1)

D. UNDER THE SCHEME FROM 1.4.1989

1. If sold by Manufacturer (M1) to another Manufacturer (M2) 2. If sold by Manufacturer (M1) to any others

The bill will be as follows: The Bill will be as follows

Selling Price (say) 250.00		Selling price 275.00
Turnover Tax at Manufacturers rate (say) 10%	25.00 (d)	
	275.00	
Buyers Turnover tax (1%)	2.50 (e)	Buyers Turnover tax (1%) 2.75
Total Received or Receivable	277.50	277.75
	=====	=====

NOTE:

The second manufacturer M2 will claim (d + e) from the turnover tax payable by him.

A Trader who sells this for (say) 400.00 will be liable to turnover tax at 1% as before 4.00
Less: Turnover tax paid on his behalf 2.75

Manufacturer M1 will pay as in C1 plus a further 2.50 (e) on behalf of M2

The Manufacturer M1 will pay as in C1 plus a further 2.75 on behalf of Buyer

B. UNDER THE SCHEME FROM 1.4.1989

1. If sold to a Manufacturer 2. If sold to any others

The bill will be as follows:
Selling Price 300
Importer's turnover tax (1%) 3 (b)

Buyers turnover Tax (1%) 3 (c)

Total Received or Receivable 306
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Note:

The manufacturer will claim as a credit against turnover tax payable by him, the aggregate of (a + b + c) viz: 39

The bill will be as follows
Selling Price 303.00
Buyers turnover tax (1%) 3.03

Total Received or Receivable 306.03
=====

A trader who sells this for (Say) 400.00 will be liable to turnover tax at 1% as before 4.00
Less: Turnover tax paid on his behalf 3.03
and pay only the balance 0.07
=====

The importer will pay, on his sale, as before, 3, plus the further 3 on behalf of the buyer.

The importer will pay, as before 3.03 plus a further 3.03 on behalf of the buyer.

TAX AMNESTY

There are strong views against the grant of amnesties. However, in practice, countries have been compelled to grant amnesties to give an opportunity to those outside the tax net to come into the tax stream. However, we find that progressively countries have reduced the concession available to such tax payers. The recent amnesty in Australia required that such persons must pay all their taxes. They were exempt only from the penalties.

In Sri Lanka we have had a number of amnesties. There was one in 1964 by the S.L.F.P. Government and another in 1966 by the U.N.P. Government. There was a Demonetisation Amnesty in 1970, a Foreign Exchange Amnesty in 1971 and a Gem Amnesty in 1973.

Another Amnesty was granted by the U.N.P. in 1978. This required the payment of a tax of 30 percent and the balance had to be held in a Special Deposit Account with the National Savings Bank till 31st March, 1983.

However, a person was permitted to withdraw such deposits for investment in projects approved (for Investment Relief) by the Minister under the Inland Revenue Act, a GCEC project, or utilize such deposits for purposes of any Approved Expenditure in terms of the Inland Revenue Act or the purchase or construction of a house if such purchase or construction was approved by the Commissioner for National Housing.

The Amnesty now proposed is in a way similar to the 1978 amnesty but in this instance the Hon. Prime Minister and Minister of Finance has stated

1. that the deposits will have to be made within 3 months commencing 1st April, 1989
2. the tax payable will be 20 percent of the deposit
3. the balance amount held in deposit should be invested within 2 years in an agricultural or industrial project under the Jana Saviya Programme with employment opportunities for at least 10 persons.

Note What is intended is that the balance in deposit cannot be withdrawn for a period of 2 years, except for investment in an agricultural or industrial project under the Jana Saviya Programme with employment opportunities for at least 10 persons.

Specific legislation will be enacted shortly.

EXCISE DUTIES

Excise duties and import duties on tobacco and liquor have always been an easy (and possibly justified?) avenue for collecting additional revenue. This year too the Minister has raised the duties and also gone a step further by abolishing with immediate effect the duty free sale of liquor and cigarettes at the Duty Free Shops located outside the Airport.

CUSTOMS DUTY

Duties on cars have been increased and effect has also been given to the recommendations of the Presidential Tariff Commission.

SPECIAL EXPORT TAX

The U.S. Commerce Dept had taken the view that some textile imports from certain countries, including Sri Lanka, are being traded unfairly because they are subsidised. A team of officials were in Sri Lanka in 1984 to examine the position further and a Countervailing Duty of 3.06 percent on garments and 5 percent on textiles exported from Sri Lanka was imposed from the year 1985 to counter the "unfair advantage" that these exports had in the U.S. Among the countries that were examined by the U.S. authorities were Argentina, Peru, Malaysia, Singapore, Thailand, Columbia, Indonesia, Mexico, Phillipines and Turkey. It appears that some of the countries or sectors had agreed to renounce the use of subsidies and thereby avoid the imposition of the countervailing duty by the U.S.

The Minister has proposed that we should impose a special export tax of an amount equal to the Countervailing Duty which is the measure of the "unfair advantage" that our exports have in the U.S. It is fair that the U.S. authorities should agree to abolish their duty. Pending negotiations the imposition of the Special Export Tax has been deferred to 1st July, 1989. If the U.S. agrees this would bring in additional Revenue to Sri Lanka without causing any hardship to the exporters.

CHARITABLE INSTITUTIONS

Although the Hon. Prime Minister made no reference to Charitable Organisations, the reduced rate of 10 percent applicable to the investment income of provident funds will apply also to the investment income of charitable institutions as against the present rate of 20 percent. Since income of charitable institutions is invariably from investments, the Bill when drafted may provide that all income (not merely investment income) of a charitable institution will be liable at 10 percent.

EXPORT PROFITS - EXTENSION OF EXEMPTION

Representations were made for the extension of the five year period of tax exemption now available for profits from the export of articles other than black tea in bulk, crepe rubber, sheet rubber, scrap rubber, coconut oil, desiccated coconut, copra, fresh coconuts, coconut fibre or gems. This exemption is due to expire on 31.3.1989. Although the Prime Minister and Minister of Finance did not refer to this matter in the Budget Speech, there will be an extension of one year under the Inland Revenue Amendment Bill to be tabled shortly.

The exemption for export of gems or sale locally for foreign currency is currently available without limitation under certain other provisions of the Inland Revenue Act.

TAXATION COMMISSION

It is over 20 years since a Taxation Enquiry Commission had made a comprehensive enquiry about tax system. The Hon. Prime Minister and Minister of Finance therefore proposes the appointment of a Taxation Enquiry Commission to undertake a complete review of the Tax System and to recommend changes necessary to make it both effective and efficient."