

VIEWS ON THE BUDGET

The Federation of Chambers of Commerce and Industry of Sri Lanka, President, Mr. C. Karunanayake: "The Private Sector welcomes the anticipated continuance of the open economic policy of the Government. It was also expected that the main thrust of the Government's development programme would be on the alleviation of poverty and the creation of new employment opportunities particularly through small production units.

All in all, no hardships have been placed on the ordinary people. The Trade welcomes the measures for the relief of the tea industry as well as the exemption from turnover tax on sales of gems and jewellery for payment in foreign exchange.

The 15 percent surcharge on Income tax and Wealth Tax for the years 1989/90 and 1990/91 appears to have been inevitable due to the need for additional revenue by Government. While the increase in turnover tax on luxury items and the duties on motorcars appears reasonable, it is noted that the minimum duty on plant, machinery and materials goes up from 5 percent to 10 percent by way of a surcharge for 2 years.

An efficient and effective system of taxation has been a long-felt need. Business will therefore welcome the proposal to re-examine the entire tax system by a Taxation Inquiry Commission. It is hoped that the Private Sector which is the major contributor to tax revenue will be consulted in the reform of the tax system which, at present, exempts Public Servants from Taxation on their official emoluments.

Despite an overall budget deficit of Rs. 53 billion the Government has attempted to meet both the demands for distribution and equity as well as growth and development. However the economic strategy of the Government would require a large measure of foreign assistance and a concerted effort to eliminate all waste, eradicate corruption and increase efficiency in public offices.

It is also hoped that the necessary policy measures which have been promised will be taken early to support the producer and the exporter by the maintenance of a realistic Exchange rate and to check domestic inflationary pressures."

The National Chamber of Commerce of Sri Lanka, President, Mr. Karu Jayasuriya: "The Budget in this instance has been presented, departing from tradition. In the context of the enormous tasks before the Minister in financing the Janasaviya Programme what he has been able to achieve is very commendable.

We are conscious of the fact that H.E. The President is determined to eradicate poverty, one of the main causes of the present unrest.

In our opinion therefore, it is prudent for the Government to tackle this problem in the first instance in a meaningful manner and thereafter proceed with rapid economic development on a phased programme which will yield better results.

Since peace and stability is vital for a sound economic base, the National Chamber of Commerce of Sri Lanka is hopeful that proposals contained in the Budget, directed towards poverty alleviation, will bring about stability in the not too distant future.

The reference to the already repealed Business Acquisition Act is certainly encouraging and will restore confidence to the private sector. But emergency provisions to nullify the repeal of the Act should not be invoked.

The creation of a single umbrella body to promote and co-ordinate foreign investments in the operation of the G.C.E.C. and F.I.A.C. is a step in the right direction provided the organisation is geared to achieve speedy disposal of investment proposals.

We also note that the Government intends to proceed with its plans for privatisation in a realistic manner. We welcome the Minister's bold reference to a plan for closing down of public enterprises performing inefficiently, but we hope that the plan will not be shelved for political reasons.

We consider it most essential to protect and develop the 'Tree Crop Sector', for this segment will remain the main source of livelihood so to say, for many years to come.

The surcharge on income tax, though an additional burden to the tax payer will no doubt be a sacrifice to achieve

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the objects of the Janasaviya Programme. We expect the retail trade to show their sincerity by absorbing the additional turnover tax of 1 percent meant to be collected from them.

Reduction in the rate of taxation of 10 percent on certain Provident Funds will be a great relief. However, we strongly urge the Government to totally eliminate tax on terminal benefits.

We note that duty on Plant and Machinery has been raised from 5 percent to 10 percent. This can negate some of the good intentions for employment creation. What is of greater concern is the increase in duty on raw materials from 5 percent to 10 percent as it will be a continuing burden.

The National Chamber of Commerce is very conscious of the tremendous problems the Government has to contend with and would wish that the budget proposals will achieve for the country the objects it seeks to realise."

The Chairman, Sri Lanka Apparel Exporters Association, Mr. Lyn Fernando in a letter to the Hon. Prime Minister and Minister of Finance on the Proposed Tax of 3.06 percent on apparel exports to the U.S.A. states:

We feel that there is some serious misunderstanding on this proposal and consequently we are appealing to you through the Honourable Minister of Textiles and Rural Industrial Development and the Honourable Minister of State for Textiles in order that you may study this matter in greater detail with a view to withdrawing this proposal.

Among some of the issues raised in the Association's letter are the following:

It this tax is to be levied on factories operating in the Free Trade Zone it would require special legislation which would be contrary to the Agreements already entered into by the GCEC and these factories which specially prohibit such taxes. Any attempt to introduce such legislation which is retrospective would also have adverse effects on future much needed foreign investments. Consequently if the GCEC factories are excluded from this tax in the same manner as they are now exempted from the Rs.1/- per piece quota levy the net result will be that the factories operating in the Free Trade Zone

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would not only be more competitive than those outside, but in effect make factories outside the Zone pay for the incentives given to manufacturers in the Zone.

What will be the position of firms who have filed successful petitions to the US Dept. of Commerce and have succeeded in obtaining an exemption on the payment of the countervailing duty? Will they also be liable to this tax? For your information, there were many other firms desirous of filing action in the United States but were persuaded by the Sri Lankan Authorities not to do so.

If Government decides to proceed with this tax, it is imperative that Officials from the US Dept. of Commerce visits Sri Lanka and make a re-examination of the incentives or subsidies. What would be the position if they determine a higher rate?

The rationale for this proposal is that the withdrawal of the Countervailing Duty would result in a higher price simply because a tax imposed in their own country is removed.

The Apparel Export Industry has had a spectacular growth from an export value of about Rs.60 million in 1976 to over Rs.12.5 billion last year. We are all agreed that the net foreign exchange earning is only about 30 percent of this figure but in the current context of His Excellency the President's poverty alleviation programme it is important to understand its socio-economic benefit by the enormous amount of employment generated both in the industry and in its feeder industries such as the manufacture and supply of ancillaries to the industry. Additionally Government has also identified proposals for backward linkage and if implemented would result in an additional amount of foreign exchange earned by the country and more particularly in the provision of employment to a larger number and thus effectively contribute to the policies pursued by His Excellency the President.

The proposed tax is therefore contrary to these policies and would only act as a severe dis-incentive to the growth of this industry and the generation of employment.