

## BOX 15

Major Economic Policy Changes and Measures: 2016<sup>1</sup>**Monetary Policy**

- 16 January 2016 - The Statutory Reserve Ratio (SRR) applicable to all rupee deposit liabilities of Licensed Commercial Banks (LCBs) was increased by 1.50 percentage points to 7.50 per cent from 6.00 per cent.
- 19 February 2016 - The Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) were increased by 50 basis points to 6.50 per cent and 8.00 per cent, respectively.
- 28 July 2016 - The SDFR and SLFR were increased by 50 basis points to 7.00 per cent and 8.50 per cent, respectively.
- 24 March 2017 - The SDFR and SLFR were increased by 25 basis points to 7.25 per cent and 8.75 per cent, respectively.

**Financial Sector****Licensed Banks**

- 25 January 2016 - All licensed banks were instructed to submit information on the occurrence of events related to cyber security to the Director of Bank Supervision, Central Bank of Sri Lanka (CBSL) within one working day from the date of detection and within 15 days from the end of each quarter, for the purposes of monitoring.
- 01 February 2016 - All licensed banks were required to display of fees charged from customers for fund transfers effected through systemically important payment systems in all branches and display them on banks' website commencing 10 February 2016.
- 01 September 2016 - A Circular was issued to licensed banks requiring them to use the Bloomberg Trading Platform available to Sri Lanka to conduct all outright trades with other banks and primary dealers and to report yield rates and volumes of all outright trades carried out over-the-counter in excess of Rs. 50 million, within 30 minutes of each such trade, commencing 15 September 2016.
- 29 December 2016 - Banking Act Directions No. 01 of 2016 was issued requiring licensed banks to maintain the minimum capital ratios and buffers in respect of total risk weighted assets commencing 01 July 2017.
- 10 January 2017 - A consultation paper was issued on 'Basel III Leverage Ratio Framework for Licensed Banks'.
- 13 January 2017 - Banking Act Directions No. 01 of 2017 was issued to licensed banks informing the Loan to Value ratio (LTV) for credit facilities granted by the licensed banks for the purpose of purchase or utilisation of vehicles commencing 16 January 2017.
- 01 February 2017 - A Circular was issued to licensed banks informing the national policy approved in the Budget 2017 in respect of the following;
  - credit to identified sectors such as small and medium enterprises, exports, tourism activities, agriculture, youth and women
  - enhancing banking services

<sup>1</sup> This includes major economic policy changes and measures implemented during 2016 as well as those that have been implemented during the first three months of 2017 and policy measures envisaged to be taken in the near future.

- |             |   |
|-------------|---|
| Forthcoming | <ul style="list-style-type: none"> <li>- Introducing the Leverage Ratio to licensed banks</li> <li>- Introducing the Net Stable Funding Ratio (NSFR) to licensed banks</li> <li>- Enhancing bank examination methodology</li> </ul> |
|-------------|---|

### **Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs)**

- |                  |   |
|------------------|---|
| 18 January 2016  | - Directions were issued to strengthen and streamline the existing policies and practices in respect of the opening of new branches and automated teller machines, closure and relocation of branches and other outlets of LFCs and SLCs. |
| 28 October 2016  | - The Direction on maximum interest rates on deposits and debt instruments that could be offered by LFCs was revised.   |
| 13 January 2017  | - The Directions issued to LFCs and SLCs on LTV for credit facilities in respect of motor vehicles were revised in line with the Budget proposal for 2017.  |
| 23 February 2017 | - The Direction to increase the minimum core capital for LFCs on a staggered basis were issued.   |

### **Insurance**

- |                   |   |
|-------------------|---|
| 01 January 2016   | - The Insurance Board of Sri Lanka (IBSL) issued Solvency Margin (Risk Based Capital) Rules to all insurance companies.   |
| 04 January 2016   | - IBSL issued a Direction under section 96A of the Regulation of Insurance Industry (RII) Act to all insurers and brokers, to obtain approval from IBSL on changes in ownership and control over 50 per cent of shareholding.   |
| 15 March 2016     | - IBSL increased the policy acknowledgement period by the policy holders from 7 days to 14 days.  |
| 01 April 2016     | - IBSL issued a Direction under section 96A of RII Act, to all long-term insurance companies to grant policy holders 21 days of cooling-off period / free-look period to examine the terms and conditions of the policy documents.  |
| 26 May 2016       | - IBSL amended Rule 5 in Rules of 2005, requiring any person who wishes to be registered as a broker under RII Act requiring to have and maintain a paid up share capital of the company, of a sum not less than Rs. 2.5 million.   |
| 30 September 2016 | - IBSL issued a Circular (No. 39) requiring all insurance companies to inform IBSL about new insurance products along with the launch date of such products. Accordingly, all general insurance companies should submit relevant documents prior to the launch whilst long-term insurance companies have to submit actuarial certificate, policy document and proposal form at least 45 days prior to the launch.   |
| 01 October 2016   | - IBSL issued Guidelines on complaints handling by insurers and brokers to ensure fair treatment of customers in a timely manner.   |
| 21 October 2016   | - IBSL amended the Guidelines on Linked Long Term Insurance Business including surrender value of a policy must not be less than the value of units, based on the unit price at the time of cancellation less any insurance charges, policy fee and surrender charges, where applicable. Provisions of the RII Act on determination of surrender values shall apply to the risk portion of an investment-linked product where the risk charges are funded in advance. |
| 01 January 2017   | - IBSL issued Guidelines on conducting investigations on insurance claims with the objective of promoting professionalism and enhancing the image of the industry while safeguarding the interests of the policy holder.  |

## Capital Market

- 01 January 2016 - Share Transaction Levy (STL) was removed.
- 01 April 2016 - STL was re-imposed at a rate of 0.3 per cent.
- 17 November 2016 - Securities and Exchange Commission of Sri Lanka (SEC) revised the Directive on Minimum Public Float requirements.
- 22 November 2016 - SEC issued a Direction to all stock brokers, excluding those licensed to trade only in debt securities, to maintain a minimum Capital Adequacy Ratio of 1.2 times of the total risk requirement of the stock broker firm calculated in consideration of operational, counterparty large exposure and position risks, subject to a minimum liquidity capital of Rs. 35 million, with effect from 01 March 2017.

## Microfinance

- 20 May 2016 - Microfinance Act No. 6 of 2016 was enacted for;
  - the licensing, regulation and supervision of companies carrying on microfinance business,
  - the registration of non-governmental organisations accepting limited savings deposits as microfinance non-governmental organisations and
  - the setting up of standards for the regulation and supervision of microfinance non-governmental organisations and micro credit non-governmental organisations.
- Microfinance Act assigns Department of Supervision of Microfinance Institutions of the CBSL to examine and supervise Licensed Microfinance Companies (LMCs).

## Small and Medium Enterprises (SMEs) Development

- 07 January 2016 - Operating Instructions were issued to Participating Financial Institutions (PFIs) to recommence the Microfinance Component of the National Agribusiness Development Programme (NADeP) to disburse Rs. 90 million islandwide.
- 14 January 2016 - The maximum grace period of loans granted under the Commercial Scale Dairy Development Loan Scheme (CSDDLs) was increased to 12 months from 06 months, depending on the requirements of the project.
- 27 April 2016 - Operating Instructions were issued to the PFIs to implement the Phase II of Self-Employment Promotion Initiative Loan Scheme (SEPI-II).
- 27 May 2016 - The eligible size of an individual loan for income generating activities under the NADeP was revised to the range between Rs. 10,000 to Rs. 300,000 with effect from 07 April 2016.
- 03 August 2016 - Operating Instructions were issued to the PFIs to implement the "Tharuna Diriya" Youth Empowerment and Employment Project operated under the NADeP.
- 22 August 2016 - Operating Instructions were issued to include sugarcane as an eligible crop under the New Comprehensive Rural Credit Scheme (NCRCS) with effect from 15 September 2016.
- 07 October 2016 - Operating Instructions were issued to the PFIs to implement the "Value Chain Development Capital Agriculture Loan Scheme" and "Value Chain Development Seasonal Agriculture Loan Scheme" under the "Out Grower Farmers Loan Scheme" of NADeP.
- 20 December 2016 - The date of completion of the "Tharuna Diriya" under the NADeP was extended up to end March 2017 with effect from 01 October 2016.

- 06 February 2017 - Maximum period for loan repayments under the CSDDLs was increased from 5 years to 6 years inclusive of a maximum grace period of one year, depending on the nature of the project.
- 08 February 2017 - A new loan scheme named “SWASHAKTHI – Towards One Million Jobs” was launched by the CBSL for the development of micro, small and medium scale enterprise (MSME) sector and employment generation, on behalf of the Government.

### Payments and Settlements

- Forthcoming - Issuing a Guideline to set standards for mobile applications used by financial institutions to provide payment services.

### Anti-Money Laundering

- 06 January 2016 - A national policy on Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT), approved by the Cabinet of Ministers, was adopted.
- 27 January 2016 - Extraordinary Gazette No. 1951/13 on the Financial Institutions (Customer Due Diligence) Rules No. 1 of 2016 was issued to financial institutions.

### Foreign Exchange Management

- 20 January 2016 - New directions were issued to authorised dealers on Non Resident Foreign Currency Accounts (NRFC), Resident Foreign Currency Accounts (RFC), Resident Non Nationals' Foreign Currency Accounts (RNNFC) and Foreign Exchange Earners' Accounts (FEEA) allowing such account holders to freely remit funds in such accounts, outside Sri Lanka for any purpose.
  - A new Gazette notification was issued permitting individuals resident in Sri Lanka to retain in his/her possession foreign currency up to US dollars 10,000 or its equivalent in any other foreign currencies.
  - A new Gazette notification on Electronic Fund Transfer Cards was issued allowing holders of NRFC, RFC, RNNFC and FEEA to make any payment to a person resident outside Sri Lanka.
- 11 March 2016 - A Gazette notification was issued permitting holders of NRFC, RFC, RNNFC and FEEA, authorised dealers, Licensed Specialised Banks (LSBs), LFCs who have been permitted to accept deposits in foreign currency and citizens of Sri Lanka who have dual citizenship to invest in Sri Lanka Development Bonds (SLDBs) issued by the Government of Sri Lanka.
- 23 March 2016 - Directions were issued to authorised dealers and primary dealers appointed as designated agents for SLDBs, permitting them to open special foreign currency accounts titled 'Sri Lanka Development Bonds Investment Account' and 'Dollar Account for Bond Investment' for the purpose of acquiring, holding and transferring SLDBs and to purchase US dollars from an authorised dealer.
- 01 April 2016 - The exemption which has been granted in the Gazette No. 759/15 dated 26 March 1993 was repealed and exporters of goods were required to repatriate export proceeds retained abroad within 90 days of the date of exportation of such goods. Further, such exporters of goods were required to repatriate any proceeds retained abroad not later than 01 May 2016.
- 19 April 2016 - Directions on Diplomatic Foreign Currency Accounts and Diplomatic Rupee Accounts were issued to authorised dealers permitting them to remit visa collection fees of the Diplomatic Missions and proceeds realised from the sale of vehicles owned by Diplomatic personnel without referring to the Controller of Exchange and to make investments in Sri Lanka through Securities Investment Account (SIA).

- 16 May 2016
- The emigrants who migrated before 12 June 2013 on Permanent Resident Visas were permitted to remit superannuation benefits including provident fund and gratuity benefits and current income including interest, dividends, pension, rent, lease rentals and profits derived in Sri Lanka after 12 June 2013 through their respective Non Resident Blocked Accounts, without the amount being deducted from the eligible migration allowance.
  - New directions on sale of foreign exchange to emigrants were issued to authorised dealers permitting the Sri Lankans who have obtained Permanent Residency in another country after 12 June 2013, to transfer the eligible migration allowance to a SIA for investment in Sri Lanka.
- 07 June 2016
- A new External Commercial Borrowing Scheme (ECBS) was implemented for companies incorporated in Sri Lanka other than LCBs, LSBs, LFCs, SLCs, companies limited by guarantee and overseas companies, to borrow from foreign sources and a direction was issued to authorised dealers permitting them to open and operate 'External Commercial Borrowing Accounts' in the name of eligible borrowers.
- 10 June 2016
- The restriction that prevailed on foreign investments in the areas of money lending and providing security services including security management, assessment and consulting to individuals or private organisations was removed.
- 29 September 2016
- The time given to repatriate proceeds of goods exported was extended to 120 days from the date of exportation of such goods. A grace period of 30 days may be granted by the CBSL, prior to instituting action against any violation.

## Price Revisions

- 01 February 2016
- The common floor rates for local voice calls and Short Message Service (SMS)/ Multimedia Messaging Service (MMS) were revised as follows:

Item		Floor Rate per Minute (Rs.)	
		Previous	New
Local voice call (per minute basis billing)	On-net	1.00	1.50
	Off net	2.00	1.50
Local voice call (per second basis billing)	On-net	1.25	1.80
	Off net	2.50	1.80
SMS/ MMS (per message)	On-net	0.10	0.20
	Off net	0.25	0.20

- 14 July 2016
- The Maximum Retail Prices (MRP) of certain food items were set as follows:
    - Masoor Dhal (red lentils) at Rs. 169 per kg
    - Dried sprats (imported - Thailand) at Rs. 495 per kg
    - Dried sprats (imported - Dubai) at Rs. 410 per kg
    - Gram at Rs. 260 per kg
    - Green gram (Moong) at Rs. 220 per kg
    - Canned fish (imported) at Rs. 140 per net weight of 425g or drained weight of 280g and Rs. 70 per net weight of 155g or drained weight of 105g
    - White sugar at Rs. 95 per kg
    - Wheat flour at Rs. 87 per kg
    - Full cream milk powder (imported) at Rs. 325 per 400g and Rs. 810 per 1kg

	<ul style="list-style-type: none"><li>- Full cream milk powder (local) at Rs. 295 per 400g and Rs. 735 per 1kg</li><li>- Frozen or chilled Broiler chicken meat (whole chicken) with skin at Rs. 410 and without skin at Rs. 495</li><li>- Potatoes (imported) at Rs. 120 per kg</li><li>- B' onions (imported) at Rs. 78 per kg</li><li>- Dried chillies (neither crushed nor ground) at Rs. 385 per kg</li><li>- Dried fish - Katta at Rs. 1,100 per kg</li><li>- Dried fish - Salaya at Rs. 425 per kg</li><li>- Sustagen at Rs. 1,500 per 400g</li><li>- Maldiv fish at Rs. 1,500 per kg</li></ul>												
01 August 2016	<ul style="list-style-type: none"><li>- Passenger bus fares were increased by 6 per cent. The minimum bus fare was increased to Rs. 9 from Rs. 8.</li></ul>												
21 October 2016	<ul style="list-style-type: none"><li>- National Medicines Regulatory Authority (Ceiling on Prices) Regulation No. 2 of 2016 on MRP of 48 selected medicinal products was issued.</li></ul>												
29 November 2016	<ul style="list-style-type: none"><li>- Price of a 12.5kg cylinder of LP gas was reduced by Rs. 25 to Rs. 1,321.</li></ul>												
09 January 2017	<ul style="list-style-type: none"><li>- The retail price of kerosene was reduced by Rs. 5 to Rs. 44 per litre.</li></ul>												
27 January 2017	<ul style="list-style-type: none"><li>- The MRP of certain items was revised as follows:<ul style="list-style-type: none"><li>- Masoor Dhal (red lentils) at Rs. 159 per kg</li><li>- Dried sprats (imported - Thailand) at Rs. 490 per kg</li><li>- Dried sprats (imported - Dubai) at Rs. 405 per kg</li><li>- Green gram (Moong) at Rs. 205 per kg</li><li>- White sugar at Rs. 93 per kg</li><li>- Potatoes (imported) at Rs. 115 per kg</li></ul></li></ul>												
08 February 2017	<ul style="list-style-type: none"><li>- The MRP of rice was set as follows:<ul style="list-style-type: none"><li>- Samba rice at Rs. 80 per kg</li><li>- Naadu rice at Rs. 72 per kg</li><li>- Raw rice (Kekulu) at Rs. 70 per kg</li></ul></li></ul>												
17 February 2017	<ul style="list-style-type: none"><li>- The MRP of rice was revised as follows:<table><tr><th>Variety of Rice</th><th>MRP on Locally Produced Rice (Rs. per kg)</th><th>MRP on Imported Rice (Rs. per kg)</th></tr><tr><td>Samba Rice (excluding Keeri and Suduru Samba)</td><td>90</td><td>80</td></tr><tr><td>Naadu Rice</td><td>80</td><td>72</td></tr><tr><td>Raw Rice (Kekulu)</td><td>78</td><td>70</td></tr></table></li></ul>	Variety of Rice	MRP on Locally Produced Rice (Rs. per kg)	MRP on Imported Rice (Rs. per kg)	Samba Rice (excluding Keeri and Suduru Samba)	90	80	Naadu Rice	80	72	Raw Rice (Kekulu)	78	70
Variety of Rice	MRP on Locally Produced Rice (Rs. per kg)	MRP on Imported Rice (Rs. per kg)											
Samba Rice (excluding Keeri and Suduru Samba)	90	80											
Naadu Rice	80	72											
Raw Rice (Kekulu)	78	70											
	<ul style="list-style-type: none"><li>- Medical Devices Pricing Regulations, No. 01 of 2017 was issued to set MRP on medical devices.</li></ul>												
14 March 2017	<ul style="list-style-type: none"><li>- The MRP on white sugar and frozen or chilled Broiler chicken meat (whole chicken) with skin and without skin was removed.</li></ul>												

## Tax Revisions

### Personal Income Tax

- Forthcoming
- Revising the individual income tax rate as follows:
    - Profits and income from employment
      - (a) Increasing tax free threshold on employment from Rs. 750,000 to Rs. 1.2 million per annum<sup>2</sup>
      - (b) Revising the rates applicable on the second employment as follows:
        - If the payment does not exceed Rs. 50,000 per month at 10 per cent;
        - If the payment exceeds Rs. 50,000 per month at 20 per cent
    - The progressive rate structure will be from 4 per cent to 24 per cent having the equal tax slabs of Rs. 600,000 each
    - Removing the exemptions on profits and income from employment as follows:
      - on providing transport
      - certain special allowances provided for special categories of public services

### Corporate Income Tax

- Forthcoming
- Revising the income tax rates as follows:
    - The corporate income tax to 3 tiers structure of lower rate of 14 per cent, standard rate of 28 per cent and the higher rate of 40 per cent as follows:
      - (a) The lower rate of 14 per cent will be applicable to the profits and income of SMEs<sup>3</sup>, export of goods or services, agriculture and education
      - (b) The higher rate of 40 per cent will be applicable to the profits and income of betting and gaming, liquor and tobacco
      - (c) The standard rate of 28 per cent will be applicable on the profits and income of all the other sectors including banking and finance, insurance, leasing and related activities etc.
    - Increasing the income tax rate applicable to Funds (EPF, ETF, etc.), charitable institutions, dividends, Treasury bonds and Treasury bills and any other sector from 10 per cent to 14 per cent
    - Removing the following exemptions of income tax on:
      - certain dividends and interest or profits from investment in listed securities (corporate debt securities etc.) and other instruments
      - on dividends received by Unit Holders of Unit Trusts and Mutual Funds for Corporate sector
      - interest on savings accounts up to Rs. 5,000 per month
      - interest on deposits applicable to senior citizens will be restricted to Rs. 1.5 million per annum

<sup>2</sup> The deduction for qualifying payments will be adjusted accordingly.

<sup>3</sup> For this purpose, SME will be defined with specific criteria of having a maximum turnover limit of Rs 500 million per annum.

- Granting following investment incentives on income tax on any trade or business:
  - 100 per cent capital allowances on investment in fixed assets not less than US dollars 3 million with not less than 250 employment
  - 200 per cent capital allowances if the investment with the same conditions referred to above is made in Northern Province
  - 100 per cent capital allowances and for the second year of commercial operation 5 per cent of the investment as a tax credit up to a maximum of tax payable, if such investment is not less than US dollars 5 million with minimum 300 employment
- Granting following specific concessions on income tax on any trade or business:
  - any investment not less than US dollars 100 million with minimum employment of 500 or
  - any investment not less than US dollars 500 million
- Granting a rebate equal to 75 per cent of the income tax attributable to excess profit of 2016/17, where profits from exports in foreign currency increased over 15 per cent or more in 2016/17 compared to 2015/16
- Revising the rate of capital allowances as follows:
  - Plant, machinery or equipment from rates of 33 1/3 per cent, 50 per cent and 100 per cent to 20 per cent (5 equal installments)
  - Buildings from 10 per cent to 5 per cent (20 equal installments)

### Withholding Tax

- |             |   |
|-------------|---|
| Forthcoming | <ul style="list-style-type: none"> <li>- Increasing Withholding Tax (WHT) on interest income to 5 per cent</li> <li>- Introducing WHT for specified fees exceeding Rs. 50,000 per month</li> <li>- Removing notional tax credit and the income on instruments subject to upfront tax such as Treasury bills, Treasury bonds or corporate debt securities on the net interest</li> </ul> |
|-------------|---|

### Time Bar Provisions

- |             |  |
|-------------|--|
| Forthcoming | <ul style="list-style-type: none"> <li>- Revising the time bar provisions related to assessments and appeals as follows:               <ul style="list-style-type: none"> <li>- to issue assessments from 18 months to 09 months</li> <li>- to hear an appeal by the Commissioner General from 24 months to 06 months</li> <li>- to hear an appeal at the Tax Appeal Commission from 24 months to 06 months</li> </ul> </li> </ul> |
|-------------|--|

### Economic Service Charge (ESC)

- |               |   |
|---------------|---|
| 01 April 2016 | <ul style="list-style-type: none"> <li>- Following revisions were made on ESC:               <ul style="list-style-type: none"> <li>- Exclusion on profit making businesses was removed.</li> <li>- Maximum liability of Rs. 120 million per year was removed.</li> <li>- The rate was increased to 0.5 per cent from 0.25 per cent.</li> <li>- The period for the carrying forward of ESC to be setoff against income tax payable for any period commencing 01 April 2016, was reduced from 5 years to 3 years.</li> </ul> </li> </ul> |
|---------------|---|



- Retail trade of petrol, diesel and kerosene was made liable for ESC if the aggregate turnover for a quarter is Rs. 50 million. Tax is calculated on 1/10th of the liable turnover of such trade.
- Forthcoming
  - Reducing threshold of ESC from Rs. 50 million per quarter to Rs. 12.5 million per quarter
  - Imposing ESC on imports of gold, other precious metal and motor vehicles

### Value Added Tax (VAT)

- 02 May 2016<sup>4</sup>
- The rate of VAT was increased to 15 per cent from 11 per cent.
  - Registration threshold of the VAT was decreased to Rs. 3 million from Rs. 3.75 million per quarter.
  - Supply of telecommunication services, import or supply of telecom equipment or machinery, high tech equipment including copper cables for telecom industry, issue of licenses to local telecom operators by Telecommunication Regulatory Commission (TRC) and supply of healthcare services were made liable for VAT.
  - The quarterly turnover of Rs. 100 million applicable for the imposition of VAT on wholesale or retail trade was reduced to Rs. 3 million (not implemented).
- 01 November 2016
- The rate of VAT was increased to 15 per cent from 11 per cent.
  - The quarterly turnover of Rs. 100 million applicable for the imposition of VAT on wholesale or retail trade was reduced to Rs. 12.5 million.
  - Registration threshold of VAT was decreased to Rs. 3 million from Rs. 3.75 million per quarter.
  - Supply of telecommunication services, import or supply of telecom equipment or machinery, high tech equipment, including copper cables for telecom industry, issue of licenses to local telecom operators by TRC and supply of healthcare services (other than fees paid to medical practitioners, medical consultation fees, channeling fees and hospital room charges) were made liable for VAT.
  - Importation and supply of following items were made liable for VAT;
    - cigarettes
    - liquor
    - light weight electric and electronic goods
    - perfumes
    - coal
    - telecommunication equipments
- 11 November 2016
- Following supplies were exempted from VAT:
    - Plants, machinery and accessories for renewable energy generation identified under certain H.S. Codes
    - Electrical goods identified under certain H.S. Codes
    - Magazines, journals or periodicals other than newspapers, identified under certain H.S. Codes
    - Medical machinery and medical equipment identified under the HS Code No. 8421.29.10

<sup>4</sup> These measures were valid only for the period from 02 May to 11 July 2016 as per VAT (Amendment) Act No.20 of 2016 enacted on 01 November 2016.

- Forthcoming
- Introducing VAT refund mechanism at the point of departure of foreigners who stay not more than 30 days in Sri Lanka on goods purchased by such foreigners
  - Granting VAT exemptions on the supply of international telecommunication services provided to local operators by external gateway operators
  - Terminating Simplified Value Added Tax (SVAT) system

### Nation Building Tax (NBT)

- 02 May 2016<sup>5</sup>
- Registration threshold of NBT was decreased to Rs. 3 million from Rs. 3.75 million per quarter.
  - NBT exemptions on telecommunication services, supply of electricity, lubricants, supply of goods and services to any specified projects other than housing projects were removed.
- 01 November 2016
- Registration threshold of NBT was decreased to Rs. 3 million from Rs. 3.75 million per quarter.
  - NBT exemptions on telecommunication services, supply of electricity, lubricants, supply of goods and services to any specified projects other than housing projects were removed.
- 11 November 2016
- Following items were exempted from NBT:
    - Printed books, magazines, journals and periodicals other than newspapers, identified under certain HS Codes
    - Solar panel modules and accessories under certain HS Codes

### Excise Duty

- 01 January 2016
- Excise duty on bottled toddy was increased to Rs. 30 per litre from Rs. 10 per litre.
- 01 April 2016
- Excise duty on the importation and local supply of ethyl alcohol was increased.
- 01 September 2016
- Excise duty on importation of foreign liquor was imposed as follows:
    - Rs. 50 per bulk litre of malt liquor
    - Rs. 100 per bulk litre of foreign wine
    - Rs. 200 per bulk litre of other foreign liquor
- 01 January 2017
- The duty on bottled toddy was increased to Rs. 50 per litre from Rs. 30 per litre.
- Forthcoming
- Introducing Excise duty on imported non potable alcohol at Rs. 25 per litre
  - Introducing Excise duty on raw materials used for manufacturing of ethanol

### Excise (Special Provisions)

- 27 May 2016
- Unit rate of Excise (Special Provisions) duty on the importation of motor vehicles was revised.
- 20 August 2016
- Excise (Special Provisions) duty on diesel was increased to Rs. 13 per litre from Rs. 3 per litre.
- 04 October 2016
- Excise (Special Provisions) duty on cigarettes was increased.
- 11 November 2016
- Excise (Special Provisions) duty was imposed on beer cans as follows:
    - not more than 350 ml at the rate of Rs. 10 per can
    - more than 350 ml at the rate of Rs. 15 per can

<sup>5</sup> These measures were valid only for the period from 02 May to 11 July 2016 as per NBT (Amendment) Act No.22 of 2016 enacted on 07 November 2016.

## Customs Duty

- |                   |   |
|-------------------|---|
| 01 February 2016  | - Customs duty on the importation of rice was increased to Rs. 50 per kg from Rs. 35 per kg.  |
| 09 February 2016  | - Full Customs duty waiver of 15 per cent or Rs. 10 per kg granted on the importation of wheat grain was reduced to Rs. 4 per kg. Hence, the applicable rate is Rs. 6 per kg.                                 |
| 23 June 2016      | - Customs duty waiver of Rs. 6 per litre granted on the importation of diesel was removed. Hence, the applicable rate is Rs. 15 per litre.  |
| 15 July 2016      | - Customs duty waiver of Rs. 90 per kg was granted on the importation of milk powder. Hence, the applicable rate is Rs. 135 per kg.   |
| 13 August 2016    | - Customs duty of Rs. 15 per kg was imposed on the importation of polypropylene bags.   |
| 25 August 2016    | - Customs duty on the importation of ethyl alcohol was increased to Rs. 500 per litre from Rs. 400 per litre.   |
| 15 September 2016 | - Customs duty waiver of Rs. 4 per kg on wheat grain was removed and Customs duty of 15 per cent or Rs. 10 per kg applicable on the importation of wheat grain was increased to 15 per cent or Rs. 12 per kg. |
| 11 November 2016  | - Customs duty waiver on milk powder was increased to Rs. 125 per kg from Rs. 90 per kg. Hence, the applicable rate is Rs. 100 per kg.  |
|                   | - Customs duty on rice was revised to 30 per cent or Rs. 50 per kg from Rs. 50 per kg.  |
| 10 December 2016  | - Customs duty waiver of Rs. 3 per kg was granted on the importation of wheat grain. Hence, the applicable rate is Rs. 9 per kg.  |
| 20 December 2016  | - Customs duty waiver on milk powder was increased to Rs. 180 per kg from Rs. 125 per kg. Hence, the applicable rate is Rs. 45 per kg.  |
| 01 February 2017  | - Customs duty waiver of Rs. 3 per litre was imposed on the importation of diesel. Hence, the applicable rate is Rs. 12 per litre.  |
|                   | - Customs duty waiver of Rs. 10 per litre was imposed on the importation of petrol. Hence, the applicable rate is Rs. 25 per litre.   |

## Customs Valuation

- |               |   |
|---------------|---|
| 01 March 2016 | - Instead of using Customs value determined by the Director General of Customs based on the price furnished by the manufacturer of such vehicle, the higher value of the two alternative values of (a) and (b) below was applied by the Gazette No. 1956/17 (item i) issued on 01 March 2016 to calculate Customs value of motor vehicles:<br><br>(a) Value of the vehicle, determined by the Director General of Customs based on the price furnished by the manufacturer of such vehicle.<br><br>(b) Invoiced Free on Board (FOB) Value of the vehicle.                           |
| 26 May 2016   | - Gazette No. 1956/17, issued on 01 March 2016, was repealed by the Gazette No. 1968/11, issued on 25 May 2016, and revised the method of calculating Customs value of motor vehicles (item (i)) as follows:<br><br>(a) Transacted value of brand new motor vehicle should be proved with invoice issued by the manufacturer or certified by the manufacturer of such vehicles.<br><br>(b) Transacted value of other motor vehicles should not be below 82.5 per cent of the transacted value of a similar or identical brand new vehicle in the country of export of such vehicle. |

- 14 June 2016 - The Gazette No. 1968/11, issued on 25 May 2016, was repealed by the Gazette No. 1971/10, issued on 14 June 2016, and revised the method of calculating Customs value of motor vehicles (item (i) (B)) as follows:

Transacted value should not be below 85 per cent of the transacted value of a similar or identical brand new vehicle at the country of export of such vehicle.

Further, brokerage and selling commission incurred by the buyer until the vehicle reaches the port of Sri Lanka (item (5)) was included to calculate the Customs value of motor vehicles.

### Cess

- 15 June 2016 - Cess on exportation of raw rubber was increased to Rs. 15 per kg from Rs. 4 per kg.
- Cess on importation of meat under H. S. codes No. 02.01, 02.02, 02.04, 02.06, 02.07 and 02.10 was decreased to 15 per cent or Rs. 100 per kg from 30 per cent or Rs. 225 per kg.
- 24 August 2016 - Cess on importation of beedi leaves was increased to Rs. 2,000 per kg from Rs. 350 per kg.

### Special Commodity Levy (SCL)

- 21 January 2016 - SCL on the importation of Maldivian fish, dried sprats, green gram (Moong), black gram, chillies, seeds of coriander, turmeric, black gram flour and canned fish was extended for a period of six months.
- 29 January 2016 - SCL of 10 per cent on the importation of maize and grain sorghum was extended until 29 February 2016.
- SCL of Rs. 175 per kg on the importation of vegetable fats and oils and their fractions was extended up to 28 April 2016.
- 01 March 2016 - SCL on the importation of potatoes was increased to Rs. 35 per kg from Rs. 15 per kg for a period of four months.
- SCL on the importation of b' onions was increased to Rs. 25 per kg from Rs. 5 per kg for a period of four months.
- 08 March 2016 - SCL on the importation of mackerel, peas, chickpeas, cowpeas, kurakkan, margarine, sugar and vegetable oils was extended for a period of six months.
- 02 April 2016 - SCL on the importation of dried fish, yoghurt, butter, dairy spreads, red onions, garlic, fresh oranges, grapes, apples, seeds of cumin, seeds of fennel, mathe seeds, kurakkan flour, ground nut, mustard seeds and salt was extended for a period of six months.
- 13 May 2016 - SCL on the importation of vegetable oils was increased by Rs. 20 per kg for a period of six months.
- SCL on the importation of margarine with fat content of 80 per cent or more was increased to Rs. 195 per kg from Rs. 175 per kg for a period of six months.
- SCL on the importation of margarine (other) was increased to Rs. 295 per kg from Rs. 275 per kg for a period of six months.
- 21 May 2016 - SCL on the importation of fresh, chilled or frozen fish, Masoor dhal (red lentils), yellow lentils, dates and seeds of cumin was extended for a period of six months.
- SCL on the importation of red onions was increased to Rs. 25 per kg from Rs. 5 per kg for a period of six months.
- SCL on the importation of seeds of fennel was increased to Rs. 162 per kg from Rs. 52 per kg for a period of six months.

17 June 2016	<ul style="list-style-type: none"> <li>- SCL on the importation of vegetable oils was increased by Rs. 20 per kg for a period of six months.</li> <li>- SCL on the importation of margarine (other) was increased to Rs. 315 per kg from Rs. 295 per kg for a period of six months.</li> <li>- SCL of Rs. 155 per kg was imposed on palm olein for a period of six months.</li> </ul>
01 July 2016	<ul style="list-style-type: none"> <li>- SCL on the importation of potatoes and b'onions was extended for a period of three months.</li> <li>- SCL of 10 per cent was imposed on the importation of maize and grain sorghum for a period of three months.</li> </ul>
19 July 2016	<ul style="list-style-type: none"> <li>- SCL on the importation of Maldivian fish, dried sprats, green gram (Moong), black gram, chillies, seeds of coriander, turmeric, black gram flour and canned fish was extended for a period of six months.</li> <li>- SCL on the importation of sugar was decreased to Rs. 0.25 per kg from Rs. 30 per kg for a period of six months.</li> </ul>
20 August 2016	<ul style="list-style-type: none"> <li>- SCL on the importation of b'onions was increased to Rs. 40 per kg from Rs. 25 per kg for a period of six months.</li> </ul>
25 August 2016	<ul style="list-style-type: none"> <li>- SCL on the importation of potatoes was increased to Rs. 40 per kg from Rs. 35 per kg for a period of six months.</li> </ul>
08 September 2016	<ul style="list-style-type: none"> <li>- SCL on the importation of mackerel, peas, chickpeas, cowpeas and kurakkan was extended for a period of six months.</li> </ul>
16 September 2016	<ul style="list-style-type: none"> <li>- SCL on the importation of sugar was increased for a period of six months as follows: <ul style="list-style-type: none"> <li>- White crystalline sugar from Rs. 0.25 per kg to Rs. 2 per kg</li> <li>- Other sugar from Rs. 0.25 per kg to Rs. 15 per kg</li> </ul> </li> </ul>
30 September 2016	<ul style="list-style-type: none"> <li>- SCL on the importation of red and yellow lentils was increased for a period of six months as follows: <ul style="list-style-type: none"> <li>- Whole from Rs. 0.25 per kg to Rs. 5 per kg</li> <li>- Split from Rs. 0.25 per kg to Rs. 10 per kg</li> </ul> </li> </ul>
02 October 2016	<ul style="list-style-type: none"> <li>- SCL on the importation of dried fish, yoghurt, butter, dairy spreads, garlic, fresh oranges, grapes, apples, mathe seeds, kurakkan flour, ground nut, mustard seeds and salt was extended for a period of six months.</li> </ul>
08 November 2016	<ul style="list-style-type: none"> <li>- SCL on the importation of fish, fresh or chilled and frozen, excluding fish fillets and other fish meat, was increased to 10 per cent or Rs. 75 per kg, the amount of levy whichever is higher, from 10 per cent or Rs. 50 per kg, the amount of levy whichever is higher, for a period of six months.</li> <li>- SCL on the importation of green gram (Moong) was increased to Rs. 40 per kg from Rs. 10 per kg for a period of six months.</li> <li>- SCL was imposed on the importation of following items: <ul style="list-style-type: none"> <li>- Mangoosteens – (fresh and dried) at Rs. 200 per kg</li> <li>- Oranges (dried) at Rs. 2,000 per kg</li> <li>- Pears at Rs. 175 per kg</li> <li>- Other - Cherries at Rs. 250 per kg</li> <li>- Plums and soles at Rs. 200 per kg</li> <li>- Kiwifruit at Rs. 175 per kg</li> <li>- Other fresh fruits under HS Heading 0810.90.99 at Rs. 200 per kg</li> </ul> </li> </ul>

11 November 2016	- SCL on the importation of white crystalline cane and beet sugar was increased to Rs. 7 per kg from Rs. 2 per kg for a period of six months.
21 November 2016	- SCL on the importation of red onion, dates, seeds of cumin, margarine and seeds of fennel was extended for a period of six months.
	- SCL of Rs. 230 per kg was imposed on the importation of dried grapes for a period of six months.
10 December 2016	- SCL on the importation of palm oil (other) was increased to Rs. 175 per kg from Rs. 170 per kg for a period of six months.
	- SCL on the importation of other vegetable oils and margarine was extended for a period of six months.
20 December 2016	- SCL on the importation of maize and grain sorghum was revised to Rs. 10 per kg from 10 per cent for a period of six months.
	- SCL on the importation of white crystalline cane and beet sugar was increased from Rs. 7 per kg to Rs. 13 per kg for a period of six months.
07 January 2017	- SCL of Rs. 15 per kg was imposed on the importation of semi-milled or wholly milled raw rice (Kekulu), Naadu rice (red or white) and Samba rice (red or white) for a period of three months.
19 January 2017	- SCL on the importation of Maldivian fish, dried sprats, black gram, chillies, seeds of coriander, turmeric, black gram flour and canned fish was extended for a period of six months.
	- SCL on the importation of vegetable oils was decreased by Rs. 20 per kg for a period of six months.
28 January 2017	- SCL on the importation of semi-milled or wholly milled raw rice (Kekulu), Naadu rice (red or white) and Samba rice (red or white) was decreased to Rs. 5 per kg from Rs. 15 per kg for a period of 30 days.
17 February 2017	- SCL on the importation of potatoes and b' onions was extended for a period of six months.
	- SCL on the importation of red and yellow lentils was increased for a period of six months as follows:
	- Whole from Rs. 5 per kg to Rs. 10 per kg
	- Split from Rs. 10 per kg to Rs. 15 per kg
24 February 2017	- SCL on the importation of vegetable oils was decreased by Rs. 20 per kg for a period of six months.
27 February 2017	- SCL on the importation of semi-milled or wholly milled raw rice (Kekulu), Naadu rice (red or white) and Samba rice (red or white) was extended for a period of 30 days.
08 March 2017	- SCL on the importation of mackerel, peas, chickpeas, cowpeas, kurakkan and sugar other than white crystalline sugar was extended for a period of six months.

### Ports and Airports Development Levy (PAL)

01 January 2016	- The rate of PAL was increased to 7.5 per cent from 5 per cent.
	- Concessionary PAL rate of 2.5 per cent was imposed on electronic and electric items.
	- Machinery used for construction, dairy and agricultural industries was exempted from PAL.

- 11 November 2016
- PAL on printed books, magazines, journals and periodicals was removed.
  - PAL on pharmaceutical products under HS Codes No. 3926.90.80 and 9602.00.10 was decreased to 2.5 per cent.

### Stamp Duty

- 01 January 2016
- Stamp duty of Rs. 15 for every Rs. 1,000 or part thereof levied for local usage of credit cards was removed.
  - Stamp duty on usage of credit cards for foreign purchases was increased to Rs. 25 for every Rs. 1,000 or part thereof.
  - Stamp duty on any share certificate issued consequent to the issue, transfer or assignment of any number of shares of any company was removed.

### Embarkation Levy

- 01 January 2016
- Embarkation Levy was increased as follows:
    - For a person leaving Sri Lanka by aircraft from US dollars 25 to US dollars 30
    - For a person leaving Sri Lanka by ship from US dollars 5 to US dollars 30
- 01 January 2017
- Embarkation Levy was increased to US dollars 50 from US dollars 30.

### Fees and Charges

- 01 January 2016
- Fees for passport and dual citizenship were increased as follows;

		Previous (Rs.)	New (Rs.)
Passport fee one day service	Adult	7,500	10,000
	Child	3,500	5,000
Passport fee normal service	Adult	2,500	3,000
	Child	1,500	2,000
Dual citizenship fee		250,000	300,000

- SAARC visa fee was increased to US dollars 20 from US dollars 10.
- Forthcoming
- Imposing an annual license fee and a fee on voluntary liquidation on companies
  - Imposing a filing fee when filing a Court case by any person in any Court
  - Reclassifying traffic offences in order to enforce spot fines
  - Removing the casino entry fee
  - Imposing an annual license fee on importers of Beedi leaves at Rs. 5 million

### Other

- 01 January 2016
- The rates on International Telecommunication Operators' Levy (ITOL) were increased from US dollars 9 cents to US dollars 12 cents.
  - Vehicle Entitlement Levy was introduced.
  - Construction Industry Guarantee Fund Levy was removed.
  - Retail sales and transportation of maximum quantity of foreign liquor were restricted to 7.5 litres.

- |                |  |
|----------------|--|
| 04 August 2016 | <ul style="list-style-type: none"> <li>- Right to Information Act No. 12 of 2016 was enacted,</li> <li>- to provide the right or access to information</li> <li>- to specify grounds on which access may be denied</li> <li>- to establish the Right to Information Commission</li> <li>- to appoint Information Officers</li> </ul>   |
| Forthcoming    | <ul style="list-style-type: none"> <li>- Introducing a Financial Transaction Levy at 0.05 per cent on the basis of the total transaction value by banks or financial institutions</li> <li>- Increasing teledrama levy applicable on the foreign teledramas flowing in to the country and dubbed in Sinhala, Tamil or any other language</li> <li>- Increasing Telecommunication Levy on internet services to 25 per cent from 10 per cent</li> <li>- Imposing a SIM Activation Levy of Rs. 200</li> <li>- Imposing a surcharge at Rs. 100 million on all mobile operators per district for failing to convert their infrastructure enabling to provide 3G facility within the given 6 months period</li> <li>- Increasing Annual Spectrum Charge by 25 per cent</li> <li>- Imposing a Capital Gain Tax at the rate of 10 per cent on the gain realised from disposal of immovable properties</li> <li>- Imposing a Carbon Tax on vehicles other than electric cars and tractors</li> <li>- Revising Luxury and Semi-Luxury Motor Vehicle Tax</li> <li>- Imposing an annual license fee of Rs. 20,000 on firearms other than firearms used for agricultural purposes</li> <li>- Charging a fee for license to import lubricants, bitumen and gold</li> </ul> |

### Government Expenditure

- |                  |   |
|------------------|---|
| 25 February 2016 | - Public Administration Circular No. 03/2016 was issued to implement salary scales for public service in five phases with effect from 01 January 2016.  |
| 09 March 2016    | - Circular No. 2016NFS/FCG(1) was issued to grant a maximum cash grant of Rs. 25,000 per hectare for a maximum of two hectares per year in place of the fertiliser subsidy for paddy farmers. |
| 01 May 2016      | - Pension Circular No. 04/2016 was issued to establish the new insurance scheme "Agrahara Rekawarana" for officers who retired after 01 January 2016.   |
| 03 May 2016      | - A Circular was issued to grant a cash grant of Rs. 15,000, Rs. 9,000 and Rs. 5,000 per hectare per year for tea, coconut and rubber, respectively, in lieu of fertiliser subsidy.           |

### Debt Management

- |                  |  |
|------------------|--|
| 07 January 2016  | - Issuance of SLDBs up to a limit of US dollars 2,500 million for 2016 was authorised.   |
| 16 February 2016 | - A Circular was issued on 'Recording of Ownership of Government Securities in the LankaSecure Central Depository System' to all participants of LankaSettle System to ensure compliance with LankaSettle System Rules (version 2.1) issued on 01 August 2013 in the conduct of their business operations. |
| 13 March 2016    | - The minimum investment amount in SLDBs was decreased from US dollars 100,000 to US dollars 10,000.   |



- |                |   |
|----------------|---|
| 07 April 2016  | - The regulatory and supervisory functions of the CBSL, carried out hitherto by the Superintendent/Registrar of Public Debt, in relation to primary dealers and other participants in terms of Local Treasury Bills Ordinance (LTBO), Registered Stock and Securities Ordinance (RSSO) and other relevant regulations and statutes, were assigned to the Director, Department of Supervision of Non Bank Financial Institutions of the CBSL.                |
| 01 August 2016 | <ul style="list-style-type: none"> <li>- A Circular was issued requiring all primary dealers to use the Bloomberg trading platform Fixed Income Quote (FIQ) designed for Sri Lanka to;</li> <li>- conduct all inter primary dealer outright trades.</li> <li>- report yield rates and volumes of all outright trades carried out over the counter in excess of Rs. 50 million with non primary dealer investors within 30 minutes of each trade.</li> </ul> |





