Budget Analysis 2023

Resilience and Recovery

November 2022

KPMG Sri Lanka

Contents

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14th November 2022

For the clients of KPMG Sri Lanka

The Honourable President Ranil Wickremesinghe in his capacity as the Minister of Finance of Sri Lanka presented the 77th Annual National Budget at the Parliament. His Excellency the President presented the Budget 2023 under the theme 'Sri Lanka, Towards a New Beginning', with the intention of creating a new economic base to match the new trends and new economic thinking. Wide-ranging set of proposals was presented in the Budget 2023. The highlights of the Government's economic and revenue proposals are presented in this edition of the KPMG Budget Analysis.

The President reiterated that the Government's aim is to create a primary surplus in the budget by more than 2% of GDP in the Year 2025, to increase Government revenue to around 15% of GDP by 2023, to achieve high economic growth rate of 7% to 8% and to enhance the Foreign Direct Investments to more than USD 3 billion by 2033.

This publication has been compiled on a high-level review of the proposals in the limited time available to us. We may also emphasize that these proposals need to be enacted by Parliament for legal enforcement.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

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Budget 2023 at a Glance

Divestment and Restructuring of SOEs

At present, the Government of Sri Lanka ("GOS") bears the cost of 420 Government institutions and enterprises. The annual loss of major 52 SOEs is Rs. 86 Bn.

The GOS intends restructuring SOEs with some namely Sri Lankan Airlines, Sri Lanka Telecom, Colombo Hilton, Waters Edge and Sri Lanka Insurance Corporation providing proceeds to strengthen foreign exchange reserves of the country.

Regulatory and Public service reforms

The focus of this year budget is economic reforms and reorganization and some of the initiatives under the same would be:

- For Presidential Commissions to review all aspect of Public Service and recommend reforms and the second commission to advice on changes to be made in the tax structure, the institutions and procedure to increase the state revenue
- National Productivity Commission to recommend micro economy policy changes related to industry, commerce and trade
- Introduction of 3-year Logistics Development Programme to improve performance of logistics infrastructure
- Re-evaluation of labour law to support productive economic activities

New Investment Agency and Economic Zones

An Agency for External Trade and Investment to be set up to achieve better coordination between different Government agencies. This would replace BOI, EDB, Sri Lanka Export Credit Insurance Corporation, National Enterprise Development Authority etc.

New Economic Zones to be set up with new regulation in Western Province, North-Western province, Hambanthota and Trincomalee.

Moving to a Green and Blue Economy

The Government's vision to build new economy also focuses on the economy being environment friendly. As part of this initiative:

- It is proposed to carry out R&D activities for the production of green hydrogen on a commercial basis, on a scheme of public Private Partnership
- Environment friendly assets to be monetized to access the blue and green financing space.
- Initiate the Marine Spatial plan and identify and declare the Exclusive Economic Zones to attract sustainable investments

Budget 2023 at a Glance

VAT exemptions to be reduced

VAT exemptions granted over the years has led to a revenue leakage to the GOS of approximately more than 1% of GDP.

Hence, GOS proposes to re-evaluate the exemptions list and it is expected that the same would be streamlined w.e.f. 01/04/2023.

Increase of non tax revenue

GOS intends to increase non-tax revenue by 20% w.e.f. 2023.

Same would be achieved by increasing Fees and Charges. A Committee would also be appointed to examine and make recommendations on the royalty, rent, other non-tax revenue charged and collected by the Government Organisations.

Strengthening Tax Administration

Tax Administration would be strengthened through improvement in technology, regulations, process improvements, and investing in Human Resources in Department of Inland Revenue, Sri Lanka Customs, and Department of Excise.

Proposals such as mandatory electronic tax filing system for non-corporate Tax-payers, implementation of risk based tax audit and verification programme, identifying methods to collect information from relevant institutions to broaden Tax base, discouraging cash transactions and encourage bank or card transactions are intended to strengthen the tax administration.

Taxpayer concerns

In order to address the concerns and grievances of the taxpayers, it is proposed to appoint a Tax Ombudsman.

Further a Charter , covering the rights and obligations of taxpayers will be introduced.

Economic Impact

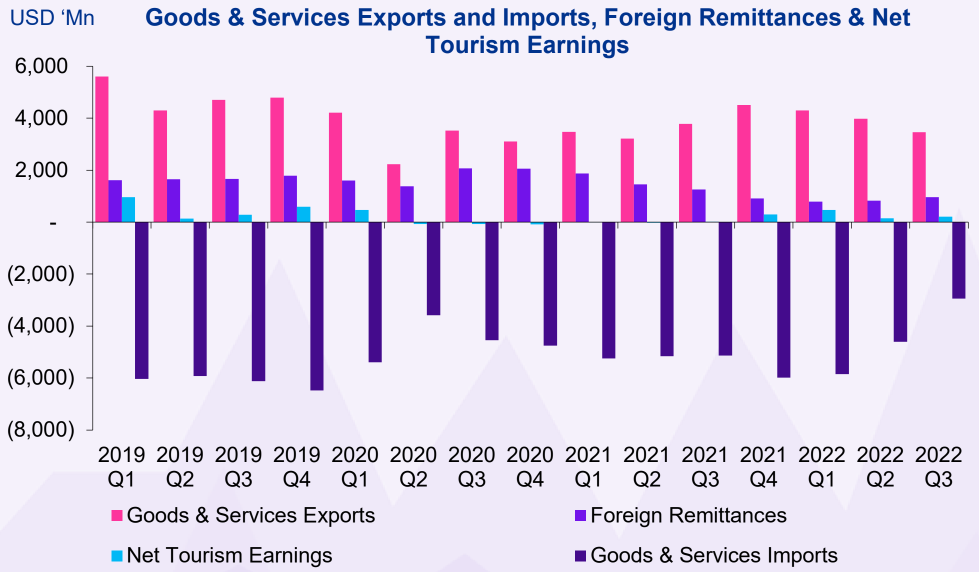
Manoeuvring Through Strong Headwinds

Consecutive black swan events weakened the External sector

Sri Lanka has been impacted consecutively by external events which were neither in control or could be anticipated (known as Black Swans) by the Government of Sri Lanka (GoSL).

The Easter Sunday attack in 2019 followed by the Global Pandemic in 2020, which has lingered into early part of 2022, have heavily dented the external sector performance of the country.

On top of sluggish foreign currency (FOREX) inflows heightened Forex denominated debt settlement have drained the country's external sector.

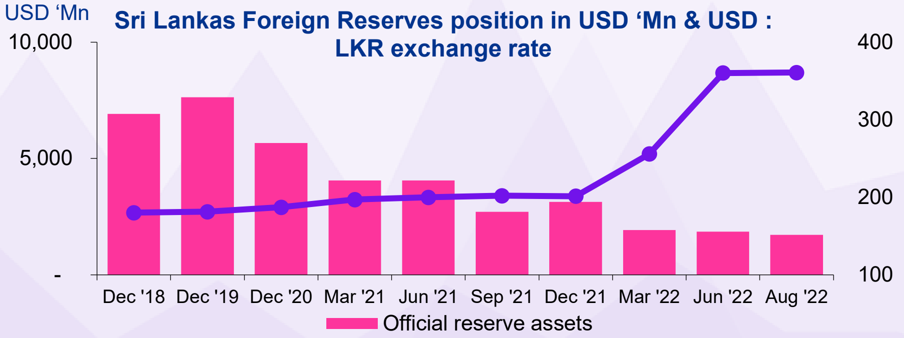


Dwindling Foreign reserves resulted in a steep currency depreciation

The country's foreign currency reserves, a lead indicator used to assess the strength of a country's currency, has deteriorated quite sharply during the pandemic hit years to USD 1.7 Bn (including a swap to the tune of USD 1.5Bn from Bank of China) as at Sep '22 from a healthy USD 7.0 Bn reported as at Dec '2018 (sufficient to meet 4 months of imports).

Continuous downgrading from the rating agencies on the back of Sri Lanka's unsustainable external debt stocks has made it increasingly difficult for GoSL to rollover its maturing Forex loans from international debt markets. In order to avert the situation of becoming a defaulted nation GoSL continued to honour its debt repayment until January 2022.

Dwindling reserves and prolonged difficult external sector position, especially halving of foreign remittances (due to higher rates prevailing in parallel markets, official remittances dropped steeply from USD 6.0 Bn in 2018 to just under USD 3.5 Bn in 2021) and subpar tourism earnings, have resulted in a chaos in domestic market as Sri Lanka was not able to meet its essential imports such as fuel, medicine & food etc. The worsening situation has led to the change in policy makers including the CBSL governor in April 2022 and the president in July 2022.



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Manoeuvring Through Strong Headwinds

CBSL opted for money printing amidst loosing access to international debt markets

Substantial reduction in tax revenue amidst a slow growth environment and steep increase in government spending induced by the pandemic resulted in widening the GoSL finance gap.

Given that GoSL lost access to international debt markets and maxing out local borrowings limit they have resorted to money printing tools. As a result, reserve money in the country has increased to LKR 1.3 Tn in Aug ‘22 from 0.9 Tn reported in Jan ’20, over a period of two years nearly LKR 450.0 Bn of new money came into circulation, which is about 40.0% increase in money supply.

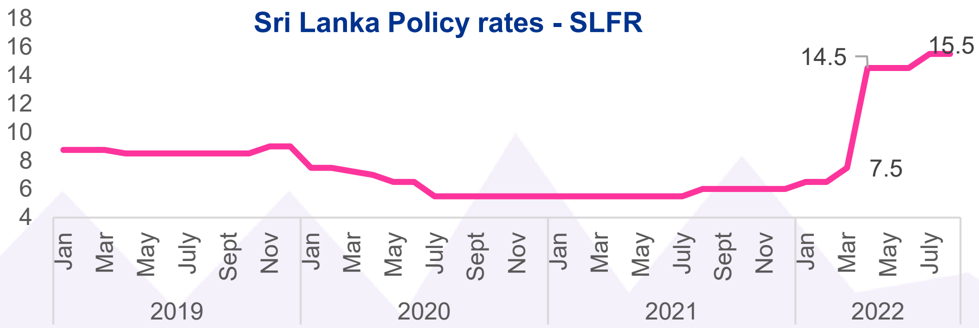
Excessive money printing and free-falling currency led to sharp spike in inflation which has skyrocketed to 73.0% in Sep ‘22 from 6.2% in Jan ’20.

To tame inflation CBSL embarked on tightening monetary policies

In order to restore the Sri Lankan economy from further collapsing, the newly appointed Governor of CBSL has taken two key steps; a) increasing policy rate by 700 Bps (largest ever increase) b) allowed currency to be free floated.

While these steps have been widely welcomed by the market participants as in the right direction towards economic stability, the consequences of these actions are far-reaching.

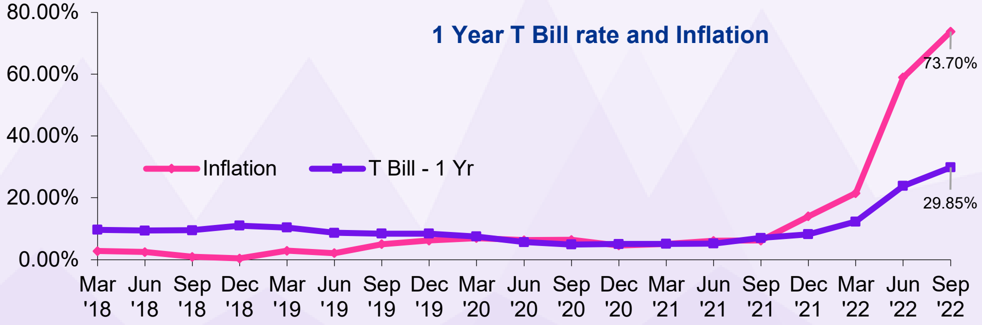
As a result, USD : LKR depreciated by ~80.0% to LKR 365 starkly raising input costs, whilst the 1 year T-Bill has skyrocketed to ~30.0% limiting abilities of business and individuals to borrow and consume.



Excessive inflation has started to erode purchasing power in the Economy

The sharp increase in inflation has started to erode purchasing power within the system and expected to squeeze economic growth in the quarters to come.

However, recent trends in inflation and interest rates indicate that both of these indicators are seemingly near their peak points and expected to gradually come down during FY2023.



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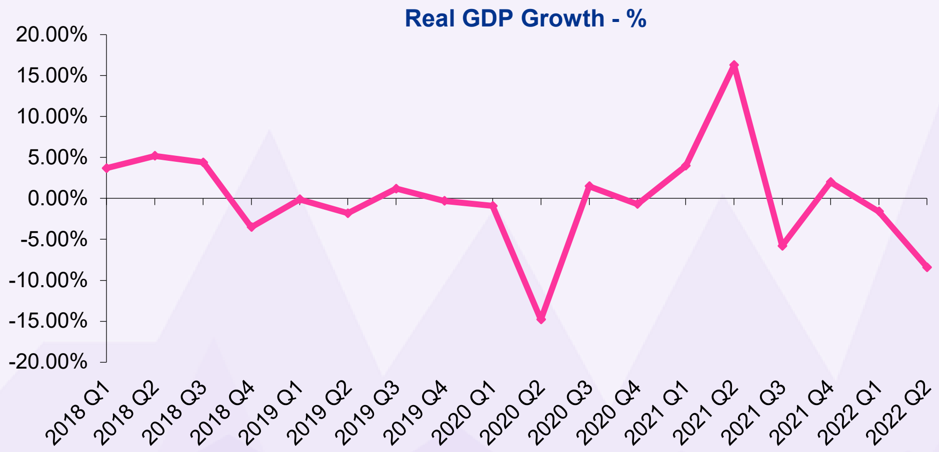
Manoeuvring Through Strong Headwinds

Elevated interest rates are expected to slow down GDP growth

Despite several hiccups Sri Lanka's GDP witnessed a 3.7% growth during 2021, largely supported by the lower base effect from the pandemic hit year 2020.

However, growth momentum picked up in the later part of 2021 started to slow down since the start of 2022 mainly due to lack of essential imports (fuel, coal, medicine, food etc) which got worse during 2Q of 2022 as a result of the free-floating currency and extremely tight monetary policy.

Though inflation is expected to slow down starting from early 2023 due to favourable base effect and anticipated improvement in food harvests; negative wage growth witnessed across private and public sector employment will continue to exert pressure in household consumption for a prolonged period, slowing down the GDP growth.



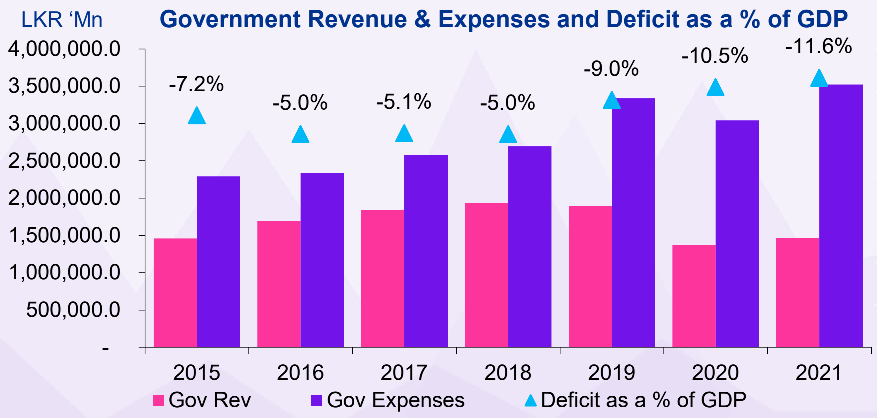
Lower growth environment to further pressurize already ailing fiscal position

Sri Lanka's dismal performances in the economic front has been attributed to its problem of twin deficits running through several decades; one of the deficits is the Fiscal deficit.

During the year 2021, the GoSL reported overall revenue of LKR 1.4 Tn and total expenses of LKR 3.5 Tn resulting in a fiscal deficit of LKR 2.0 Tn (which has entirely financed through domestic debt in 2021).

Fiscal deficit as a % of its nominal GDP widened to an unsustainable 11.6% in 2021 from 5.0% recorded in 2018. This is mainly due to a double whammy effect of suppression in the Government revenue (Tax sources) as well as heavy recurrent Government expenditure (debt service payments and salaries & pension payments stood at LKR 2.9 Tn for FY21; nearly 200% of Government Revenue).

It is note worthy to mention that the country has recorded its first positive primary balance, since 1956, of 0.6% as a % of GDP during 2018, through successful revenue mobilisation measures.



Manoeuvring Through Strong Headwinds

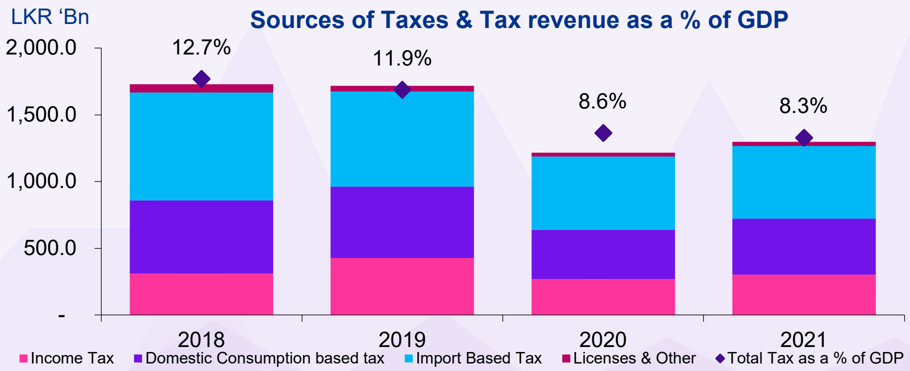
Declining Tax revenue to GDP a cause for concern

Government revenue as a % of GDP has dropped significantly, since recording its highest figure in the last decade (2011 – 2021) of 13.2% in 2016, to 8.3% in 2021.

Government expenditure as a % of GDP is hovering in the range of 17% - 20% during 2015 – 2022 (19.9% in 2021), which is inline with its peer countries average range. However, tumbling government revenue has been a major cause for concern for policy makers to address.

In 2021 total government revenue was LKR 1.4 Tn out of which Tax revenue contributes for LKR 1.2 Tn. Within Tax revenue, tax collected from direct sources accounted for 23.0% whilst indirect tax sources accounted for 77.0%.

Such a steep reduction in revenue is mainly due to a) policy decision of reversing and relaxing a range of tax measures taken in 2019 in order to spur the economy growth (it was estimated nearly LKR 500 Bn of Tax revenue was lost in 2020) b) import restrictions that came into effect since the onset of Covid 19 pandemic (total import-based taxes came down to LKR 546.0 Bn in 2021 from LKR 809.0 Bn reported in 2018).



Securing an IMF reform package is a must

Sri Lanka is at an important juncture to secure an IMF supported reform programme to come out from the current economic crisis. GoSL has made important strides in the process by completing a "Staff Level Agreement" in Sep '22, however, they still need to complete two more criteria in order to secure the USD 2.9 Bn worth of funding from IMF.

1) GoSL needs to get support from all the lenders to come to terms with the proposed debt restructuring plans (the country has nearly USD ~ 45Bn in Forex denominated debt and have already started the negotiations with the lenders)
2) GoSL to provide a detailed plan to improve fiscal consolidation in order to achieve primary balance of 2.3% of GDP by FY25

We feel criteria no. 2 is well within GoSL's control and they have already started the journey towards macro economic stability and fiscal consolidation.

Policy directions taken by the CBSL during 1HFY22 have been well received by the market as it can been seen through most of the quantum issued via Treasury Bills and Bonds have been subscribed by the market participants effectively reducing reliance on money printing.

Due to stringent import restrictions & rationing (QR system for fuel) and resilient performances in exports have resulted in improvement in the current account of Balance of Payment potentially eliminating negative movements in the currency.

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Manoeuvring Through Strong Headwinds

Securing an IMF reform package is a must (cont.)

One of the most notable amongst the recent reforms has been implementing cost reflective pricing for essential utilities such as for fuel, electricity, LP Gas etc. With the implementing of cost reflective pricing it is expected that CEB and CPC will become self funding entities thus reducing the drain on GoSL.

Several non - strategic SoEs are being proposed to either be restructured or to be sold.

In addition, GoSL has recently proposed several key changes in Direct and Indirect taxes and that is expected to improve Government revenue from FY23 onwards.

Key Tax Proposals Direct Taxes

Corporate Income Tax

Amendments to the Inland Revenue Act

Tax Collection – Income Tax

As per the Budget 2023, the estimated income tax revenue for 2023 is stemming from Inland Revenue Bill issued on 11 October 2022 which is pending enactment. The synopsis of the Bill is provided at "Recent Amendments to Tax Laws (Proposed)".

Introduction of Exemption

Government Project

Income earned by a non-resident person from engaging in Government projects approved by the Minister of Finance which is funded by foreign grants would be exempt from income tax w.e.f 1 April 2023.

Clarity is required whether the exemption is extended to an individual involved with a project as a Consultant or employee or foreign company carrying out the project or not.

Clarification on dividend income during transition

The proposal seeks to provide clarity on the tax on dividend income received during the transitional period commencing from 1 October 2022 to the effective date of the Inland Revenue Amending Act, introduced via the Bill issued on 11 October 2022.

Exempt Dividend

- Dividend received by a non-resident person would be exempt from income tax.
- The dividend income received by a member is exempt, if such dividend is paid by a resident company from the dividend received by such resident company or another resident company.

Income Tax Rate on Dividend

The dividend received by resident person would be liable to income tax at the rate of 15%.

Key Tax Proposals
Indirect Taxes

Value Added Tax (VAT)

As per the Budget 2023, the majority of the estimated revenue from VAT, is addressed in the VAT Bill issued on 27 Sep 2022 which is pending enactment. The synopsis of the Bill is provided at "Recent Amendments to Tax Laws (Proposed)". Following are the Budget Proposals in relation to VAT which were specifically referred to in the Budget 2023 proposals.

VAT exemptions

Rationalization of exemptions

It is proposed to rationalize the exemptions available under Part II of the First Schedule of the Value Added Tax Act, No. 14 of 2002 and amendments thereto ("VAT Act") effective from 01 April 2023.

Currently, the VAT Act has a list of exemptions in excess of 250.

Administration

List of VAT registrants

A list of active VAT registered persons will be published in the Inland Revenue website.

Currently, list of inactive VAT registered persons are available in the web site along with the parties registered for the SVAT.

VAT Act

Consolidation of the VAT Act

It is proposed to introduce a new VAT Act by consolidating the amendments introduced from year 2002 to year 2022.

The Principal VAT Act No 14 of 2022 was legislated in year 2022 and thereafter the Principal VAT Act has been amended many a times except for years 2010, 2017 and 2020. Currently there are 17 amending Acts to the Principal Act.

Social Security Contribution Levy (SSCL)

Introduction of Exemptions

It is proposed that the following items will be exempted from SSCL with effect from 01 January 2023.

1. Solar panels with HS Code 8541.10 and inverters with HS Code 8504.40
2. Importation of any motor vehicle with identified HS Codes which is subject to Excise Duty (SPL)

Introduction of Exemptions

It is proposed that the following items will be exempted from SSCL with effect from 01 April 2023.

1. Assembling of motor vehicles with atleast 25% local value addition and produce the required parts locally
2. Equipment used by differently abled persons
3. Pharmaceutical products with HS code 2844.40
4. Commercial hub enterprises

HS Code	Category
8541.10	Diodes, other than photo sensitive or light emitting diode
8504.40	Static converters
2844.40	Radioactive elements and isotopes and compounds other than those of subheading 2844.10, 2844.20 or 2844.30; alloys, dispersions (including cermets), ceramic products and mixtures containing these elements, isotopes or compounds; radioactive residues

The Government is proposing to introduce exemptions under the SSCL Act for the items which were previously exempted from NBT

Key Tax Proposals
Import Taxes

Import Taxes

Revision of Customs Duty Rates

It is proposed to revise the three band Custom duty tariffs to 0%, 15% & 20%. This is in order to accommodate the phasing out of the para-tariffs.

The existing tariff bands came into effect from the 2021 Budget Speech which reduced the then existing tariff bands of 0, 15%, 25% & 30% to 0%, 10% & 15%.

Current Rate	Proposed Rate
0%	0%
10%	15%
15%	20%

Phasing out of para-tariff

It is proposed to eliminate CESS & Ports & Airports Levy (PAL) on a phased basis. The tariffs would be eliminated commencing from 01 January 2023 as follows;

- Ports & Airports Levy – 5 Years
- CESS – 3 Years

Adjusting Customs Duty & CESS Levy

It is proposed to adjust the Unit Rate applied Customs Duty & CESS. For this purposes 378 selected HS Codes will be adjusted with effect from November 15, 2022.

This is proposed with the intention of absorbing Rupee depreciation and for avoidance of under-invoicing and under-valuation at the point of Customs clearance.

Removal of PAL

In order to promote electricity using renewable energy and to encourage the local production of related solar panels, PAL is removed from the below HS Codes with effect from 01 January 2023.

HS Code	Category
8541.10	Diodes, other than photo sensitive or light emitting diode
8504.40	Static converters

Import Taxes

Release of vehicles seized at the Sri Lanka Customs

Vehicles seized at the Sri Lanka Customs for non-payment of applicable taxes and other reasons, will be released from the Sri Lankan Customs, subsequent to payment of applicable taxes and fines.

Administration

It has been proposed that the HS Code 2022 version will be implemented with effect from 01 January 2023.

It is also proposed to introduce legislative amendments to improve tax collection in the following institutions.

- Departments of Customs
- Department of Excise

Key Tax Proposals Administrative Provisions

Measures to Improve Tax Administration

It is proposed to enhance tax administration measures through improvements in technology, regulations, process improvements, and investing in Human Resources related to the Department of Inland Revenue, Sri Lanka Customs, and Department of Excise. Following is a synopsis of such proposals.

Digitalisation

- It is proposed to take steps to improve deficiencies in RAMIS system at the Inland Revenue Department.
- The IT based platforms at Inland Revenue Department, Customs and Excise Department to be integrated enabling sharing of information across the institutions as a measure to ensure tax compliance.

Tax Ombudsman

- A Tax Ombudsman to be appointed to address concerns of taxpayers.

The Budget 2005 introduced the concept of “Tax Ombudsman”. Minister of Finance in 2005 instituted the office of Tax Ombudsman and appointed a retired High Court Judge for a term of 2 years. After the expiry of his tenure, a new ombudsman was not appointed.

Taxpayer Charter

- A Taxpayer Charter on rights and obligations of the Taxpayers is proposed.

Presidential Commission on Taxation

- A Presidential Commission for Taxation to study and make recommendations on the functioning, coordination and changes to be made in the tax structure, the institutions and procedures. The Commission would examine on the requirement to establish a central institution for managing Government revenue.

Strengthening the Tax Collection

- A tax audit and verification programme to be introduced in all revenue collecting agencies.
- It is proposed to introduce Key Performance Indicators (KPIs) in addition to the revenue targets assigned to IRD, Customs and Excise Department. The proposal does not indicate the nature of the KPIs.
- A Dedicated Awareness Unit to be established at IRD to increase public and taxpayer awareness in a more consistent and focused manner.
- Measures to be taken to discourage cash transactions and encourage bank/card transactions with specific limits. This is to reduce tax evasion through cash transactions.

Measures to Improve Tax Administration (Contd.)

Inland Revenue Act

Time bar on Administrative Reviews

It has been proposed that the CGIR should notify his decision and the reasons for his decision on Administrative Reviews submitted on or after 1st April 2023 within two years from the date the request has been made.

Where the decision of the CGIR has not been notified within two years, the request will deem to have been allowed.

The prevailing law does not mention a time period for CGIR to notify his decision, however, taxpayer can make an appeal to Tax Appeals Commission after 7 months of making such request for Administrative Review in case a decision is not received from CGIR.

Broadening the tax base

- It has been proposed to introduce necessary legal provisions to strengthen the tax enforcement mechanism to ensure all potential taxpayers are registered within the tax system and taxes are duly paid.
- Further, legal provisions would be introduced to enhance tax audits and verification programs.

Mandatory e-tax filing

Mandatory electronic tax filing system will be introduced to non-corporate taxpayers as well (electronic tax filing system was made mandatory to corporate tax payers w.e.f. 1 April 2021).

Measures to Improve Tax Administration (Contd.)

Other

- All revenue collecting agencies should conduct risk-based audits to identify the taxpayer's inherent risk to encourage compliance.
- A mechanism to be introduced to collect information from other relevant institutions with the intention of increasing the tax base as well as tax collection from existing taxpayers.
- Necessary amendments will be made to the respective provisions of the
  - Inland Revenue Act, No.24 of 2017
  - Value Added Tax Act No.14 of 2002
  - Finance Acts and Finance (Amendment) Acts
  - Telecommunication Levy Act No 21 of 2011,
  - Tax Appeals Commission Act No 23 of 2011

to streamline the revenue administration and to rectify certain ambiguities and unintended effects (including differences in translations).

Other Proposals

Betting and Gaming Industry

Amendments to Betting and Gaming Levy (Act)

- It is proposed to extend the existing definition of 'bookmaker' to include persons receiving/negotiating bets on all type of sports events, including online betting. The existing definition covers persons receiving/negotiating bets on horse races run, or proposed to be run, in or outside Sri Lanka. Consequently, persons receiving/negotiating bets on all type of sports events, including online betting will be liable to levies imposed under the Betting and Gaming Levy Act.
- A licensing mechanism will be introduced for the business of bookmaker for a fee. The Betting and Gaming Leavy Act No. 40 of 1988 (as amended) will be amended to permit licensed bookmakers to register with IRD. The fee is to be prescribed. Currently, there is no requirement for licensing by a bookmarker though they are required to be registered with the IRD.
- Engaging in the business of bookmaker without a license will be prohibited and will be made a punishable offence.

The provision will be implemented with effect from 1 April 2023.

Amendments to Casino Business (Regulation) Act

- The existing definition for Casino will be extended to include "online gaming/casino". The existing regulatory and licensing requirements under the Casino Business (Regulations) Act No. 17 of 2010 will be extended to the online gaming/casino operating in Sri Lanka and carrying out such operations without a license will be an offence.

In order to collect Betting and Gaming Levy from online gaming/casino businesses, the Betting and Gaming Levy Act should be amended. However, this has not been addressed in the Budget.

The provision will be implemented with effect from 1 April 2023.

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Amendment to Tax Appeals Commission Act

Fee Revisions

- The fee to be paid to Tax Appeals Commission (TAC) for requesting to state a case on a question of law for the opinion of the Court of Appeal has been proposed to be increased from Rs. 1,500 to Rs. 10,000.
- The non-refundable fee of Rs. 2,500 charged under the Extra Ordinary Gazette No. 1760/4 issued under the TAC Act for filling a Petition of Appeal at the TAC is proposed to be increased to Rs. 15,000.

Transfer of Bank Guarantee to CGIR

- It is proposed to transfer of the bank guarantee submitted by the Appellant to the CGIR irrespective of the appellant's decision to appeal to the Court of Appeal.

The provisions will be implemented with effect from 1 April 2023.

Validity of Bank Guarantee

- In terms of the TAC, the Bank Guarantee submitted by the appellant should remain valid until the appeal is determined by the Commission. A clarification has been made that the Bank Guarantee should remain valid irrespective of the lapse of 270 days commencing from the date of its first appeal hearing. In terms of the TAC Act, a case should be determined within 270 days from the commencement of the hearing of an Appeal.

Commercial Hub Provisions

Overview of Hub Regulations - Finance Act 2012 & 2013

- Finance Act 2012 and 2013 provides for various reliefs and exemptions for BOI registered companies carrying out following activities subject to stipulated conditions:
  - ✓ entrepot trade in involving import, minor processing and re-export;
  - ✓ off-shore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing the same into Sri Lanka;
  - ✓ providing front end services to clients abroad;
  - ✓ leading buyers' head-quarters operations for management of finance supply chain and billing operations;
  - ✓ logistic services such as bonded warehouse or multi-country consolidation in Sri Lanka.

Finance Act (2012)

- The Finance Act (2012) provides for exemption for eligible businesses carrying on above activities under Customs Ordinance, Exchange Control Ordinance and Imports and Exports (Control) Act, No. 1 of 1969.

Finance Act (2013)

- The Finance Act (2013) extended the exemptions for above eligible businesses under:
  - ✓ Value Added Tax Act, No. 14 of 2002
  - ✓ Nation Building Tax Act, No. 9 of 2009
  - ✓ Sri Lanka Export Development Act, No. 40 of 1979
  - ✓ Special Commodity Levy Act, No. 48 of 2007
  - ✓ Ports and Airports Development Levy Act, No.18 of 2011
  - ✓ Excise (Special Provisions) Act, No. 13 of 1989
- Further, the Finance Act (2013) extended the application of exemptions to above eligible businesses under:
  - ✓ Inland Revenue Act, No. 10 of 2006
  - ✓ Strategic Development Projects Act, No. 14 of 2008

Commercial Hub Provisions (Contd.)

In the Budget 2023, the following proposals were made in relation to Commercial Hub provisions and will be effective with effect from 1 April 2023.

Consolidation of Hub Provisions

- It is proposed to consolidate the provisions of Commercial Hub Provisions under the Finance Acts No. 12 of 2012 and No. 12 of 2013.

Inclusion of Bunkering

- Scope of activities covered under the Commercial Hub Provisions to be extended to include bunkering services.

Dual Status

- The Budget Proposal indicates that a Commercial Hub Enterprise that fulfills Strategic Development Project (SDP) conditions may apply for SDP status and enjoy reliefs granted under the SDP Act.

Exemption from SSCL

- It is proposed to exempt eligible businesses (Commercial Hub Enterprises) from SSCL.

Other Taxes and Levies

Tax on Beedi

- A tax of Rs. 2/- will be introduced on each beedi produced.

Surcharge Tax

Importation of Diesel, Petrol and Crude Oil

It is proposed to introduce a new Surcharge Tax, at the point of importation of diesel, petrol and crude oil.

The imposition of the surcharge tax will have an impact on the cost of the aforesaid products.

Other non tax revenue proposals

Increase in fees and charges

It has been proposed to increase fees and charges by 20% with effect from April 2023. However, fees and charges that have already been increased in years 2020, 2021 and 2022 will not be revised under this proposal. In line with this proposal, steps would be taken to increase fees levied by the Department of Immigration and Emigration on passport, Visa and other charges.

Committee to examine non-tax revenue measures

It has been proposed to appoint a Committee to examine and make recommendations on the royalty, rent and other non-tax revenue charged and collected by Government Organizations to the General Treasury.

Transfer of revenue to General Treasury

A mechanism to be introduced to facilitate the "daily" transfer of all revenue and receipts collected by Ministries and Departments directly to the General Treasury effective from January 2023.

Establishing a road maintenance fund

It has been proposed to establish a "Road Maintenance Fund". Contribution to the fund would be derived by charging an annual fee not less than Rs.100 per vehicle at the point of obtaining Revenue Licenses.

About KPMG Sri Lanka

KPMG Leadership Team – Sri Lanka

Yohan Perera
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Suren Rajakarier
Partner, Head of Audit, Chief Operating Officer

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Partner, Audit

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Partner Audit & Family Business Consulting

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Partner, Accounting Advisory

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Partner, Audit

Raditha Alahakoon
Partner, Department of Professional Practice (DPP)

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Partner – Sustainability, ESG, Family Business & Board Governance, Global Assurance

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Partner, Internal Audit Risk, Compliance Services & Forensic Services

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Principal, Head of Advisory, Deputy Head of Markets

Dulitha Perera
Partner, Risk & Healthcare Consulting

Ajantha Weerasekara
Principal - Advisory

Economic Impact
Key Tax Proposals Direct Taxes
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About KPMG Sri Lanka

KPMG

KPMG Sri Lanka at a glance

Professionals In KPMG Sri Lanka

Professionals

1,000+
People locally

19
Partners

Audit
674

Tax
68

Advisory
28

Part of
144
Countries in the
Global Network

Celebrating
125
Years of
excellence

Combined Global Revenues
$32.13
USD in Billions

Established in
1897
The oldest
Chartered Accountancy
firm in the country

KPMG Recognitions

Sector winner in **financial services** by **LMD's most respected** entity in Sri Lanka for **2022**

KPMG firms named a "**Strong Performer**" by **Forrester - The Forrester Wave**™: Oracle Cloud Apps Implementation Services Partners, Q2 2022

KPMG Sri Lanka **ACCA Platinum Employer Status for Training and Professional Development**

Sector winner **in financial services** by **LMD's most respected** entity in Sri Lanka for **2021**

First in **Financial** Services Category **LMD Most Respected 2019**

Best Corporate Advisory Firm - Sri Lanka **2021 Global Economics Awards**

First in the **Auditors League** in Sri Lanka **LMD 100 - 2017**

Recognized for **Professionalism and Integrity LMD Most Respected 2017**

Sri Lanka **Tax Firm of the Year Asia Tax Awards 2018**

Forrester Wave Leader – 2019 – Global Cyber Security Consulting Services

Oracle SaaS Partner of the Year 2018 Oracle ERP Partner of the Year 2018 Oracle SCM Partner of the Year 2018

Best Advisory Firm in Sri Lanka **The International Finance Magazine 2016**

Best Deal Advisory Firm in Sri Lanka **Global Banking and Finance Review 2015**

Economic Impact
Key Tax Proposals Direct Taxes
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About KPMG Sri Lanka

Our Tax Team

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