

Committee on Public Finance Report on the Budget 2019

Assessment of the Fiscal, Financial and Economic Assumptions

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Assessment of the Fiscal, Financial and Economic Assumptions

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Section I: Introduction to the Report

1.1. Background

The Committee on Public Finance (COPF) is mandated with the task of providing an assessment of the fiscal, financial and economic assumptions used as bases in arriving at the budget estimates. This report is written in fulfillment of this mandate, after the 2019 Budget was presented to Parliament on 5 March 2019. As in the past, the Committee has faced some delays in receiving required information from the Ministry of Finance, which has knock-on effects on the time-line of tabling this report.

The assessment was based on three sources: (1) the numbers provided in the 2019 Budget Speech presented in Parliament on 5 March 2019; (2) Draft Budget Estimates for 2019 provided to the Parliament on 5 March 2019; and (3) Revised Estimates (in accounting format), yet unpublished, and further documents provided by the Ministry of Finance to the COPF (Annex 1 and Annex 2).

The Committee works with the macro-economic framework (relating to debt management, inflation, interest rates, exchange rates, fiscal deficits, and GDP growth) and economic assumptions of the government, where those assumptions have been stated. All numbers in the assessment are set out in current value terms.

The Committee's work has been supported by external consultants, including the Sri Lankan Think Tank Verité Research. The Committee thanks them for their valuable input and assistance.

1.2. Constraints and Qualifications

At the outset, the Committee makes note of some of the constraints and qualifications that are pertinent to this assessment. These prevailed in the previous year as well.

In order to facilitate the work of the Committee, recalling that the task of accessing the requisite information has been onerous, the COPF wrote to the Ministry of Finance (MOF), on 12 February 2019 reiterating the following:

“We write in order to request the input of the MOF in writing, pertaining to the assumptions, information and analysis that have formed the bases of formulating the budget estimates for 2019. Please note that all information and documents relating to analysis and calculations must be provided to the COPF and anything that is not provided will be deemed non-existent with the resulting allocations being considered arbitrary and accordingly, the COPF will be compelled to point out any such deficiencies, in the reports.”

Annex 1 of this report provides the complete list of information provided by the MOF to the COPF. Information provided was piecemeal and insufficient, requiring several iterations of information provision. Additional annexes accompanying this report are limited to the information provided by the MOF that is pertinent to this analysis.

The Committee has, despite the proactive communication above, still faced significant challenges in accessing the requisite information, as it has in the years past.

The COPF in presenting this report is operating under a challenging time-frame and has had to conduct the assessment using significant variations between data presented sporadically, in different formats and in several sources. Hence, the Committee will welcome and address observations on any errata in the report. This report should be used mainly to inform Parliament, improve access to relevant information, improve the budget estimates, and improve the process by which budget estimates are formulated and delivered to Parliament.

1.3. Overview

The debate and adoption of the annual budget is a pivotal period in the parliamentary calendar. For the government, it is perhaps the most important occasion to announce new policies and measures that it plans to take in steering the development of the country. However, almost every such plan will have an implication on public finance. Article 148 of the Constitution, reposes with Parliament, the ultimate power and responsibility with regard to the control of public finance. Therefore, what is set out in a budget, which is finally adopted, is

not only of critical importance to the country, but it is also amongst the most serious business of Parliament.

It is hardly necessary to reiterate therefore, that this work of understanding, fashioning and adopting a budget is foundationally dependent on the quality of information that is provided to Parliament. With this report, the COPF assists Parliament in improving the adequacy, credibility and accuracy of the information received with regard to the fiscal, financial and economic assumptions and the revenue and expenditure estimates of Budget 2019.

The present report follows an augmented structure from the reports submitted by COPF in the previous years. Instead of limiting the structure to an analysis of each revenue and expenditure category in the budget, this report analyses some of the critical informational issues in the budget estimates and in the assumptions provided.

In past years many approved budget proposals have later been shelved or significantly altered, because the estimates and assumptions upon which the proposal was built was later found to have been defective. Such course corrections are costly, and are in essence failures of public finance management. Such failures can be minimised if the parliamentary debates during the budget process are more robust and rigorous. However, perhaps the greatest impediment to more reasoned and rigorous debate in Parliament is the paucity of information and analysis that is available to Members of Parliament.

In the longer term, this informational problem faced by Parliament should be overcome with a fully-fledged independent budget office that serves Parliament. In the interim, the COPF seeks to support Parliament through its reports. This first report of the COPF on Budget 2019, provides observations to Parliament on immediate action that can be taken to improve the quality of the budget estimates, underlying assumptions and the relevant information and analysis therein.

The main informational issues addressed in this report, with regard to the fiscal, financial and economic assumptions and the budget estimates are laid out in three parts.

1. **Missing Estimates:** means that the estimates of fiscal consequences relating to the budget proposals are absent or obfuscated in Budget 2019 and/or the associated documentation.
2. **Estimates Mismatch:** where budget estimates fail to match either with past data, or the fiscal, financial and economic assumptions provided.
3. **Informational Standards and Due Diligence:** refers to serious concerns with regard to the internal consistency of data provided

and/or with the professionalism and accuracy with regard to generating estimates.

The issues are highlighted and addressed with the enumeration of specific examples, albeit not exhaustively. Section II of the Report discusses the issues of Missing Estimates and Estimates Mismatch found in the 2019 Budget. Section III discusses concerns related to Informational Standards and Due Diligence in the provision of information.

Section II: 2019 Budget Estimate Analysis

1. Missing Estimates

Missing Estimates: means that the estimates of fiscal consequences relating to the budget proposals are absent or obfuscated in the Budget 2019 and/or the associated documentation.

The problem of *Missing Estimates* is set out in this section in two main parts. The first part sets out examples of fiscal measures with undisclosed or obfuscated consequences. The second part sets out examples of negative and positive fiscal measures with missing information. In the first part, the problem of obfuscated consequences is highlighted through a case study of how information is provided with regard to the Betting and Gaming Levy.

1.1. Fiscal Measures with Undisclosed or Obfuscated Consequences

This section sets out some of the fiscal measures in which the revenue or expenditure consequences are either undisclosed or obfuscated. Section 1.1.1 provides a table with several examples of this problem. Section 1.1.2 provides a brief case study of how Parliament is not only provided with too little information, but is also substantially misled by the nature of information that is provided.

1.1.1. Undisclosed Consequences: Indicative Examples

Missing Information	Policy Proposal in the Budget	Observation
Revenue Consequence	Pharmaceutical machineries will be re-defined for the purpose of the VAT Act. [Para 2.5, Part 1, Annexure- IX, Budget Speech 2019]	No information provided in the budget on whether this will have a positive, negative or neutral implication on VAT revenue
Revenue Consequence	The term “locally produced rice products” will be re-defined for the purpose of clarity and certainty. [Para 2.5, Part 1, Annexure- IX, Budget Speech 2019]	No information provided in the budget on whether this will have a positive, negative or neutral implication on VAT revenue
Revenue Consequence	Royalty payments not exceeding Rs.50,000 per month, subject to Rs.500,000/- for each year of assessment, made to any resident individual will be exempted from WHT [Para 1.2.1, Part 1,	No information provided in the budget on whether this will have a negative or neutral implication on income tax revenue

Missing Information	Policy Proposal in the Budget	Observation
	Annexure- IX, Budget Speech 2019]	
Revenue Consequence	Excise Duty on refrigerators will be revised to 25% [Para 6.1.4, Part 1, Annexure- IX, Budget Speech 2019]	The term “revised” as used in the budget is not helpful. It can serve to disguise the direction of revision. In this case, it is likely that Excise Duty on refrigerators are being increased, but no information is provided on the revenue consequences of this proposal
Revenue Consequence	In order to remove the NBT anomaly among tour operators, DMC agencies and hoteliers who are receiving foreign currency will be adjusted [Para 3.5, Part 1, Annexure- IX, Budget Speech 2019]	The implication of this particular revision to NBT is unclear, partly because the proposal itself is unclear.
Revenue Consequence	Casino entrance levy will be revised to USD 50 per person [Para 7.2, Part 1, Annexure- IX, Budget Speech 2019]	See Case Study in this section for references and observation
Revenue Consequence	“Annual levy for carrying on the business of playing rudjino will be revised to Rs.1 million”	See Case Study in this section for references and observation

1.1.2. Case Study: Betting & Gaming Levy

The manner in which the revenues from the Betting & Gaming Levy are reported in the budget, serve as a case study of the serious issues that can arise for Parliament as a result of how information is provided in the budgeting process. The Case Study on the Betting and Gaming Levy illustrates two ways in which Parliament has been misled. (A) Misled on the policy change (B) Misled on the fiscal consequences. The Committee draws the attention of Parliament to its recommendations at the end of this section.

A. Parliament Misled on the Policy Change

The Committee finds that the information provided in the Budget has the effect of misleading Parliament about the direction of policy change, with regard to

several components of the Betting & Gaming Levy – where reductions in the Levy are presented as introductions of additional fees.

The Budget Speech, in paragraphs 207 and 208, state the proposals as follows:

- 207. Increase of license fee of casinos from Rs. 200 mn to Rs. 400 mn per annum and rudjino games to Rs. 1,000,000 per annum. The casino turnover levy will be charged at 15%. These new charges will be effective from 1st April 2019
- 208. A casino entrance fee of USD 50 per person, will be charged, effective from 1st June 2019.

The wording of paragraph 207 has the effect (perhaps inadvertently) of presenting the license fee on rudjino games of Rs. 1 million per annum, as an increase from the status quo. However, the status quo, as recorded by the Inland Revenue Department (IRD) is Rs. 200 million per annum. The wording on paragraph 208 has the effect (perhaps inadvertently) of presenting the USD 50 per person charge as a new measure. However, the IRD records the lawful status quo at present, as a charge of USD 100 per person.

The Technical Notes of the Budget Speech (Annexure IX, p. 68) explain these proposals as four proposed amendments to the application of the *Betting and Gaming Levy Act, No.40 of 1988*. The ambiguous term **revised** is consistently used to describe each of these measures – failing to specify that revisions 1 and 4 are tax increases, and revisions 2 and 3 are tax decreases.

Revision of Annual Levy

- Annual levy for carrying on the business of gaming other than playing rudjino will be **revised** to Rs. 400 million
- Annual levy for carrying on the business of playing rudjino will be **revised** to Rs.1 million

Revision of Casino Entrance Levy

- Casino entrance levy will be **revised** to US \$ 50 per person

Revision of Levy on Gross Collection

- Rate of the levy on gross collection will be **revised** to 15%

(italics emphasis added)

If there has been any previous engagement of Parliament on this policy change or if any changes have taken place without informing Parliament, from the status quo as recorded by the IRD, then the Committee is not aware of it.

B. Parliament Misled on the Fiscal Consequences.

The Committee finds that the information provided in the budget has the effect of misleading Parliament about the fiscal consequences of several amendments to the Betting & Gaming Levy, where measures that specifically reduce collectable revenue, are presented to Parliament as measures that will achieve precisely the opposite.

The MOF provided the Committee on 11 March 2019 the breakdown of the new measures to amend the Betting and Gaming Levy and the revenue impact estimated from each, in formulating the budget. This information had not been previously provided to Parliament along with the Budget.

The table below is compiled from that information as well as the information provided online by the IRD on the status quo rates.

Proposed revisions (2019 Budget)

No.	Betting and Gaming levy sub-component	Status quo rate (IRD)	Proposed rate (Budget)	Budgeted change in revenue (MOF)
1	Annual Levy <i>for carrying on business other than playing rudjino</i>	Rs. 200 million	Rs. 400 million	Increase of Rs. 800 million
2	Annual Levy <i>for carrying on the business of playing rudjino</i>	Rs. 200 million (according to the IRD official website)	Rs. 1 million	Increase of Rs. 10 million
3	Casino Entrance Levy	US\$ 100 per person (according to the IRD official website)	US\$ 50 per person	Increase of Rs. 980 million
4	Levy on Gross Collection	10%	15%	Increase of Rs. 710 million

Link:

<http://www.ird.gov.lk/en/Type%20of%20Taxes/SitePages/Betting%20and%20Gaming%20Levy.aspx?menuid=1212>. Accessed online 17th March 2019.

The misleading/vague presentation in the Budget where reduction in the Levy is presented as an increase is then compounded by budget estimates that present the consequence of these reductions as revenue enhancing rather than revenue decreasing.

A possible explanation for this discrepancy, that has been considered by the Committee, is that the IRD has failed to collect the taxes pertaining to 3 and 4, and therefore even implementing a reduced tax would result in an increase in

revenue, if collected. However, even so, the correct attribution of such a revenue increase would be to attribute it to measures that rectify the failure to collect taxes, and not to attribute it to a measure that reduces the tax.¹

¹ For instance, this is mentioned with regard to corporate tax, where the strengthening of the tax administration, including tax auditing under the RAMIS is mentioned as a basis for increasing the revenue from this tax

Recommendation

- The Committee notes that the entities from which these taxes are levied are only 14 in number – 4 casino centres, and 10 rurdjino places (according to the information provided by MOF). Parliament should be informed of the measures that will be taken by the government to collect the uncollected revenues from past years from these entities.
- Accordingly, a new revenue measure should be added to the Budget, estimating the revenue from the collection of such uncollected taxes from past years.
- Parliament has a duty to investigate and take/recommend necessary action with regard to officials responsible for failing to collect these taxes over several years, resulting in serious loss of revenue to the government.
- Parliament should be provided with correct and separate estimates on the addition and reduction of collectable revenue that would result from each of the measures set out in the budget proposals relating to the Betting and Gaming Levy.
- Parliament should be provided clarity on the legal implication of the revisions to the Betting and Gaming Levy and be assured that the new measures will not serve to provide an undisclosed amnesty or reduction in unpaid taxes, that should be collected.
- Parliament should take a specific vote on the proposals relating to significant reductions in the Betting and Gaming Levy, after the full disclosure of the above information. Currently there is a risk of Parliament approving these proposals, alongside others, on the basis of inadequate as well as misleading information.

1.2. Negative Fiscal Measures with Missing Information

This section sets out examples of fiscal measures that have a negative fiscal impact, but where the estimates on the magnitude of this impact are not provided. The primary purpose of the budgeting process is for Parliament to understand how government policies impact upon fiscal management. Therefore, it is imperative that every proposal set out is evaluated in terms of the estimated fiscal impact, without which Parliament will lack adequate understanding to make decisions on the budget. The failure to provide Parliament with this information effectively prevents Parliament from the proper exercise of its function.

1.2.1. Revenue Reducing Proposals

Missing Information	Revenue Proposal in the Budget	Remarks on missing estimates
Revenue Lost	Reduction in the Excise Duty applicable on the sugar content of sweetened beverages (both carbonated and fruit based).	The resulting reduction of collectable revenue is not provided.
Revenue Foregone	Capping the maximum carbon tax payable on commercial vehicles [Para 8.1, Part 1, Annexure- IX, Budget Speech 2019]	Expected reduction in revenue as against keeping the status quo is not provided.
Revenue Lost	Removing the International Telecommunication Operators Levy [Para 8.3, Part 1, Annexure- IX, Budget Speech 2019]	The resulting reduction of collectable revenue is not provided
Revenue Lost + Foregone	Exempting the earnings by any non-resident person on any sovereign bond, denominated in local or foreign currency and the interest earnings on the above, as well as on Sri Lanka Development Bonds. [Para 1.1.1/2, Part 1, Annexure- IX, Budget Speech 2019]	The resulting reduction of collectable revenue is not provided Expected reduction in revenue through behaviour change in the savings/bond markets is also not provided.
Revenue Lost + Foregone	Exempting interest paid to any person outside Sri Lanka on loans granted by such person to any person in Sri Lanka. This exemption will not be applicable to loans granted by a Non-resident company to its Holding company or a Subsidiary Company in Sri Lanka [Para 1.1.5, Part 1, Annexure- IX, Budget Speech 2019]	The resulting reduction of collectable revenue is not provided Expected reduction in revenue through behaviour change in the borrowing market is also not provided.
Revenue Lost	Exempting interest income earned by any person on NRFC and RFC accounts for 5 years [Para 1.1.3, Part 1, Annexure- IX, Budget Speech 2019]	The resulting reduction of collectable revenue is not provided
Revenue Lost	Exempting the interest income, up to Rs.5,000/- per month, earned	The resulting reduction of collectable revenue is not

Missing Information	Revenue Proposal in the Budget	Remarks on missing estimates
	by children of less than 18 years of age, in relation to any deposit account maintained in a financial institution. [Para 1.1.4, Part 1, Annexure- IX, Budget Speech 2019]	provided; and the Expected reduction in revenue through behaviour change in the savings market is also not provided.
Revenue Lost	Removing the requirement of a minimum of 50 employees in order to qualify for the additional deduction equal to 35% of the salary cost when calculating the income from the business of IT. [Para 1.3, Part 1, Annexure- IX, Budget Speech 2019]	The resulting reduction of collectable revenue is not provided.
Revenue Lost	Two proposals: The exemption on the importation of rough unprocessed gem stones for re-export after cutting and polishing will be granted for the lapidary service providers registered under the National Gem & Jewellery Authority; The cost of the infrastructure projects will be reduced by the removal of NBT on main construction contractor [Para 3.1 and 3.3. Part 1, Annexure- IX, Budget Speech 2019]	The resulting reduction of collectable revenue is not provided.
Revenue Consequence	Granting investment Incentives for Existing Businesses by way of tax concessions: of accelerated depreciation, instead of regular depreciation for the new investments made by existing businesses. [Para 1.4, Part 1, Annexure- IX, Budget Speech 2019]	The resulting reduction of collectable revenue, is not provided; and the expected revenue consequences of behaviour change in investments is also not provided.

1.2.2. Expenditure Proposals

Missing Information	Expenditure Proposal in the budget	Observation
Expected Cost to Government	Cinnamon Exporters who fail certified quality control tests, will be supported to improve their operations within 12 months, as part of the export Market Access Program. EDB will facilitate. [Para 32, Budget Speech 2019]	The expenditure that the government will expect to incur on this new proposal is not provided.
Expected Cost to Government	Selected schools will be supported to establish After-School and Vacation Centres (ACVC) within the school itself. [Para 46, Budget Speech 2019].	The expenditure that the government will expect to incur on this new proposal is not provided.
Expected Cost to Government	Maternity leave costs will be subsidized by 50% of the salary cost of first 3 months maternity leave granted, and 100% for the 4th month, subject to a maximum of Rs.20,000/= per employee per month. [Para 48, Budget Speech 2019]	The expected cost to the government from implementing this proposal is not provided.

1.3. Positive Fiscal Measures with Missing Information

This section sets one examples of a fiscal measure that has a positive fiscal impact, but where the estimates on the magnitude of this impact are not provided. This measure on VAT is likely to have a very significant impact on the financial landscape – because of the high leverage and value of transactions in the property market. This is also a proposal that was introduced in the previous budget, and then postponed by the government, due to various concerns. It is vital therefore, that there is due diligence in the provision of information to Parliament on the specific evaluative aspects of this proposal. For example: what were the concerns that caused this proposal to be postponed? How are those concerns now addressed? What is the expected economic impact of this measure, in the property market? What is the expected fiscal impact of this measure? The fact that estimates are provided on total expected VAT revenue is not equivalent to providing Parliament with an estimate on the specific fiscal

impact of the proposed measure, and the economic analysis that should be evaluated and understood in adopting this proposal.

1.3.1. Revenue Generating Proposals

Missing Information	Revenue Proposal in the Budget	Observation
Revenue Increase	VAT imposed on the supply of condominium housing units will be implemented with effect from April 1, 2019 where deed of agreement relating to such supply is not executed prior to April 1, 2019. [Para 2.3, Part 1, Annexure- IX, Budget Speech 2019]	No estimate provided in budget on additional revenue expected from this proposal.

2. Estimate Mismatch

Estimate Mismatch is where budget estimates fail to match either with past data or with the fiscal, financial and economic assumptions provided.

This section sets out examples of several areas of taxation where the revenue estimates provided seem to overstate the revenue that is likely to be collected. Past reports of the Committee have raised these concerns in a specific manner, in relation to the specific estimates provided to Parliament. The previous year's report of the Committee showed how the alternative estimates provided to Parliament by the Committee were significantly more accurate than the estimates provided to Parliament in the budget documents.

Overstating revenue estimates can lead the Parliament to also agree on higher expenditure levels, which then, when revenue does not meet expectations, leads to higher budget deficits, higher debt, higher interest, and finally a problem of sustainability of public finance. Therefore this problem of over-estimation requires special vigilance, as it seems to be a systematic feature of budget information provided to Parliament, and over the years this has led Parliament to agree to spending proposals that have resulted in the country being heavily indebted and facing downgrades in its international risk status with regard to ability to service the growing debt.

The Committee has provided specific *recommendations* to each category of taxes on corrective measures that can be taken before the 2019 budget is adopted.

2.1. Pay As You Earn (PAYE) Tax

PAYE Tax is expected to grow by 57% in 2019 to Rs. 65 billion, from the estimated Rs. 41 billion in taxes collected in 2018 under existing policy. This tax component will account for 3.1% of tax revenue.

Analysis

PAYE tax estimates

LKR millions

Tax Type	Revenue Estimates		Increase from 2018			
	2018 Provisional Estimate	2019 Budget Estimate	Total change from 2018	Y-o-Y % increase in Revenue	Attributed to Nominal Growth	Attributed to Policy Changes and Better Administration
PAYE Tax	41,385	65,000	23,615	57.1%	3,311 (8.0%)	20,305 (49.1%)

Sources: *Approved Budget Estimates (Multiple Years), Updated Budget Estimates 2019.*

The reasoning behind the high increase in the collection of PAYE follows a general reasoning provided for other taxes as well, that: the full revenue benefit of implementing the Inland Revenue Act involving rate changes, will contribute to increased revenue. This is because the new Act, especially for PAYE tax, was applicable for only 8 months of 2018, while it will apply to the full 12 months of 2019.

Past experiences (2013-2017)

Average annual growth rate	Average short-fall from approved budget estimations	Over-estimate in 2018 approved budget estimates against 2018 provisional estimates
17.5%	16.9%	17.2%

Based on: Approved Budget Estimates (Multiple Years), Updated Budget Estimates 2019.

In 2018, when the upward revision of the PAYE tax was implemented for 8 months, the PAYE revenue increased by 25.7%. After reducing the nominal growth impact, the impact of 8 months reduces to less than 20%. Presently, the growth estimated, above and beyond the nominal growth impact, is almost 50%. However, based on the reasoning provided, it should be below 10%. Therefore, there is a serious mismatch between the reasoning provided, and the growth that is estimated.

Analysis of past estimates shows that this is another category of revenue that has been constantly over-estimated. Actual revenue has fallen short by as much as 16.9% against estimates, on average, over a period of 5 years.

The Committee also notes that according to the Department of Census and Statistics' Household Income and Expenditure Survey for 2016, less than 5% of income receivers (that is of adults earning a salary in a household) have a salary of at least Rs. 100,000, which is the minimum threshold for the application of PAYE tax.

Recommendation

- It is important to protect decisions of Parliament against being misled in the management of public finance, which is its constitutional function and responsibility. The serious mismatch in the estimation, as set out above, should be addressed as a matter of priority. Unless new information can be provided to the Committee and Parliament that can credibly address the discrepancy in calculation and reasoning highlighted above, the final budget estimates should be revised downwards to address this discrepancy.

2.2. Value Added Tax (VAT)

VAT is expected to grow by 14.6% in 2019 to Rs. 529 billion, from the estimated Rs. 462 billion in taxes collected in 2018 under existing policy. VAT is a major component of tax revenue, set to account for over 25% of tax revenue in 2019.

The Technical Notes of the *Budget Speech* (Annexure IX, p. 65) provides five proposed amendments to the application of the *Value Added Tax Act, No. 14 of 2002*.² They are:

(1) The piece-based VAT rate applicable on domestic sale of certain garments by export oriented BOI companies will be revised from Rs. 75 to Rs. 100; (2) The term “locally produced rice products” will be re-defined for the purpose of clarity and certainty; (3) VAT imposed on the supply of condominium housing units will be implemented with effect from 1 April 2019, where deed of the agreement relating to such supply is not executed before 1 April 2019; (4) Provisions will be incorporated in the VAT Act, enabling the Minister to prescribe the basis of chargeability of VAT on certain goods as may be determined by the Minister, with the view of revenue protection; and (5) Pharmaceutical machineries will be re-defined for the purpose of the VAT Act.

The *Budget Speech*, however, estimates the revenue implication for only the first of these amendments, where the per annum revenue increase is estimated at Rs. 500 million (*Budget Speech*, p. 49). The Committee has not received any assumptions or workings to explain this estimate.

Analysis

VAT estimates LKR millions

Tax Type	Revenue Estimates		Increase from 2018			
	2018 Provisional Estimate	2019 Budget Estimate	Total change from 2018	Y-o-Y % increase in Revenue	Attributed to Nominal Growth	Attributed to Policy Changes and Better Administration
VAT	461,651	529,000	67,349	14.6%	36,932 (8.0%)	30,417 (6.6%)

Sources: Approved Budget Estimates (Multiple Years), Updated Budget Estimates 2019.

As previously noted, the budget fails to provide a revenue estimate on the introduction of VAT on the sale of condominiums. After accounting for nominal growth of Rs. 37 billion, the budget estimates a further Rs. 30 billion increase in

² The explanations in the Updated Budget Estimates provided also includes “discouraging the VAT exemptions granted on specified projects” as a factor explaining the increased VAT estimate.

revenue from VAT. This increase does not match the information and assumptions provided with regard to changes in policy and resulting revenue.

Past experiences (2013-2017)

Average annual growth rate	Average short-fall from approved budget estimations	Over-estimate in 2018 approved budget estimates against 2018 provisional estimates
18.4%	7.7%	16.1%

Based on: *Approved Budget Estimates (Multiple Years), Updated Budget Estimates 2019.*

During 2016-2017, the VAT collection benefited from a substantial revision in tax rate from 11% to 15% on 2 May 2016. The resulting year-on-year nominal growth of the VAT collected was as much as 32.3% in 2016 and 56.5% in 2017. However, apart from these years, the VAT has been constantly overestimated in budgets from 2011-2018. The 5-year average shortfall in collection against estimate has been 7.7%. In 2018, the VAT revenue only grew by 4%, which was about half the rate of nominal GDP growth.

Recommendation

- It is important for Parliament to be provided with adequate and reasoned information for the management of public finance. The basis for the budgeted increase in VAT revenue should be provided to Parliament, prior to the conclusion of the budget debate.
- In the absence of reasoned information, noting the historical trend for over-estimation, the Committee recommends, on prudential grounds, that the final budget estimates for VAT collection in 2019 be limited to an amount that is justifiable and credible in light of the above analysis.

2.3. Nation Building Tax (NBT)

NBT is expected to grow by 27.5% in 2019 to Rs. 91 billion, from the estimated Rs. 71 billion in taxes collected in 2018 under existing policy. NBT is expected to account for 4.4% of tax revenue in 2019.

The Technical Notes of the *Budget Speech* (Annexure IX, p. 65) proposes five amendments to the *Nation Building Tax Act, No. 9 of 2009*, containing both exemptions as well as new applications of the tax.³ They are:

- (1) The exemption on the importation of rough unprocessed gem stones for re-export after cutting and polishing will be granted for the lapidary service providers registered under the National Gem & Jewellery Authority;
- (2) Exemption on manufacturing cigarettes will be removed;

³ The NBT revisions are scheduled to be effective from 1 June 2019. Additionally, the MOF has later stated to this Committee that further revenue gains are expected to result from: the full gain of removing tax exemptions (e.g. on liquor, on 30 July 2018); the discouraging of NBT exemptions granted to specific projects; and the strengthening of tax administration and tax auditing under RAMIS at IRD. These have not been quantified either.

(3) The cost of the infrastructure projects will be reduced by the removal of NBT on main construction contractor; (4) NBT at the rate of 3.5% will be imposed on foreign payments made using Electronic Fund Transfer Cards (both debit and credit cards) to purchase goods and services including offshore digital services [replacing the present 2.5% stamp duty on credit card transactions]; (5) In order to remove the NBT anomaly among tour operators, DMC agencies and hoteliers who are receiving foreign currency will be adjusted [sic].

Analysis

NBT estimates

LKR millions

Tax Type	Revenue Estimates		Increase from 2018			
	2018 Provisional Estimate	2019 Budget Estimate	Total change from 2018	Y-o-Y % increase in Revenue	Attributed to Nominal Growth	Attributed to Policy Changes and Better Administration
NBT	71,357	91,000	19,643	27.5%	5,709 (8.0%)	13,934 (19.5%)

Sources: Approved Budget Estimates (Multiple Years), Updated Budget Estimates 2019.

The budget speech mentions a positive impact of Rs. 5 billion in revenue gain from NBT changes (*Budget Speech*, p. 49). It was unclear on whether this referred to the revenue increasing measures only, or whether it was the expected net impact of both the gain and loss measures in the application of NBT. The MOF clarified to the Committee later that this estimate covered only the revenue increasing measures (2) and (4), which were expected to yield an increased revenue of Rs. 3.5 billion and Rs. 1.5 billion respectively. These revenue gains are stated as per annum impact, whereas NBT revisions are to be effective only from mid-year.

However, after accounting for nominal growth of Rs. 5.7 billion, the budget estimates a further Rs. 13.9 billion increase in revenue from NBT. Clearly, this increase does not match with the information and assumptions provided with regard to changes in policy and resulting gain and loss in revenue.

Past experiences (2013-2017)

Average annual growth rate	Average short-fall from approved budget estimations	Over-estimate in 2018 approved budget estimates against 2018 provisional estimates
12.3%	26.3%	18.0%

Based on: Approved Budget Estimates (Multiple Years), Updated Budget Estimates 2019.

The average annual growth of the NBT was only 12.3% from 2013-2017, as against the 27.5% expected in 2019. Analysis of past estimates shows that this is another category of revenue that has been constantly over-estimated. Actual revenue has fallen short by as much as 26.3% against estimates on average over a period of 5 years. In 2018, the NBT was overestimated by 18.0%, despite a substantial expansion in the application of NBT (such as by removing exemptions on liquor). As in the case of VAT and PAYE tax, there is a pattern of the estimated revenue from NBT being significantly overstated to Parliament at the time of the budget.

Recommendation

- To preserve the integrity of the budgeting process the Committee requests the MOF to supply specific gain and loss revenue impact estimates for each and every change anticipated to the application of NBT.
- In the context of missing information on gain and loss implications, noting the historical trend for over-estimation, the Committee recommends, on prudential grounds, that the final budget estimates for NBT collection in 2019 be limited to an increase that can be justified and is credible, based on the above analysis.

2.4. Import Duties

Taxes on import duties are expected to grow by 44.3% in 2019 to Rs. 140 billion, from the estimated Rs. ~97 billion in taxes collected in 2018. However, the tax collected in 2017 has been as high as Rs. ~136.5 billion. The fiscal management report explains the reduction in revenue as relating to implementation of free trade agreements and other concessions that were applied in 2018. In 2019, this tax component will account for 6.7% of tax revenue.

Analysis

Import duty estimates

LKR millions

Tax Type	Revenue Estimates		Increase from 2018			
	2018 Provisional Estimate	2019 Budget Estimate	Total change from 2018	Y-o-Y % increase in Revenue	Attributed to Nominal Growth	Attributed to Policy Changes and Better Administration
Import Duties	96,990	140,000	43,009	44.3%	7,759 (8.0%)	35,250 (36.3%)

Sources: Approved Budget Estimates (Multiple Years), Updated Budget Estimates 2019.

The analysis in the table shows that apart from natural growth in nominal values, the estimated increase in growth of customs duty is over 35%. The estimated import duties for 2019 is expected to increase by Rs.43,009 million (44.3%) from 2018. Rs. 7,759 million (8.0%) could be attributable to the normal growth in this category and rest of the increase of Rs. 35,250 million would need to be matched to the changes in policy.

Past experiences (2013-2017)

Average annual growth rate over 5 years	Average short-fall from approved budget estimations	Over-estimate in 2018 approved budget estimates against 2018 provisional estimates
15.4%	4.2%	44.6%

Based on: Approved Budget Estimates (Multiple Years), Updated Budget Estimates 2019.

The policy changes that increase Customs Import Duty (CID) are presented without much clarity as: (a) upward revision of CID on selected goods including tobacco and liquor; (b) 10% increase on the unit rate of on importation of selected goods; (c) Increased by Rs. 200 to Rs. 1000 per litre on Undenatured Ethyl Alcohol. There are other changes also that are either ambiguous or will cause a reduction in income: (d) Custom duty applicable on imported fruit drinks will be adjusted with effect from June 1, 2019; (e) Revised Rate of CID on selected goods; (f) Reductions in CID on the importation of machinery used in the Gem and Jewellery industry; (g) Removal of CID and Cess on Go-Karts and the tyres used in Go-Karts.

Under the revenue proposal section of the budget, there is an estimate that revenue will increase by Rs. 20,000 million based on the customs duty related revenue proposals. However, the increase to be explained is Rs. 35,250 million. Furthermore, if there is a downward adjustment due to the revenue reducing policy changes, then the explanatory gap widens.

Recommendation

- Provide clarity on proposals (d), (e), (f) above, which have been stated in vague terms.
- Provide Parliament with information that can justify the projections or revise the projections downwards to better match probable outcomes.

2.5. Corporate Tax

Corporate taxes⁴ are expected to grow by 15% in 2019 to Rs. 183 billion, from the estimated Rs. 159 billion in taxes collected in 2018 under existing policy. This tax component will account for 8.8% of tax revenue.

Analysis

Corporate tax estimates

LKR millions

Tax Type	Revenue Estimates		Increase from 2018			
	2018 Provisional Estimate	2019 Budget Estimate	Total change from 2018	Y-o-Y % increase in Revenue	Attributed to Nominal Growth	Attributed to Policy Changes and Better Administration
Corporate Tax	159,133	183,000	23,867	15.0%	12,731 (8.0%)	11,136 (7.0%)

Sources: Approved Budget Estimates (Multiple Years), Updated Budget Estimates 2019.

The principal changes expected on the collection of corporate tax, according to the explanations provided to this Committee on 6 March 2019, are: (a) The full revenue benefit of implementing the IRD Act involving rate changes of dividend and remittance taxes; (b) Strengthening of the tax administration, including tax auditing under the RAMIS.

Past experiences (2013-2017)

Average annual growth rate over 5 years	Average short-fall from approved budget estimations	Over-estimate in 2018 approved budget estimates against 2018 provisional estimates
14.3%	6.4%	18.4%

Based on: Approved Budget Estimates (Multiple Years), Updated Budget Estimates 2019.

Analysis of previous years' estimates show that corporate tax has been constantly overestimated, and on average fallen short of estimates by 6.4%. The over-estimate in 2018 was as high as 18.4%. The past average annual growth rate of 14.3% is proximate to the growth rate anticipated for 2019. However, the past average is skewed by the 19.8% growth in 2018 due to the implementation of the new Inland Revenue Act on 1 April 2018. Furthermore, the nominal growth expected in 2019 is about 2% lower than past averages. Therefore, the

⁴ Corporate Tax has 3 components that are considered here in aggregate: income tax, dividend tax, and remittance tax

policy led growth of 7% that is projected lacks sufficient supportive information and justification.

Recommendation

- The poor record of predicting the corporate tax, despite repeated oversight queries from the COPF in the past, which were met with assurances that have not been borne out, leads the Committee to make a recommendation for additional due diligence as follows: Conduct due scrutiny on the validity of these estimates, with specific numerical analysis to support the verbal reasons provided, and submit that due diligence analysis to the Committee and any revised estimate to Parliament.

Section III: Informational Standards and Due Diligence

Section II of this report has highlighted the concerns of COPF, both with regard to the lack of information provided in the Budget, and also with regard to the lack of integrity and credibility in information that is reported.

The present section briefly sets out one further concern: the lack of appropriate standards and due diligence in the provision of information. This is highlighted by two types of issues. (1) Irreconcilable differences in classifications/formats. (2) Differences/changes in the macroeconomic assumptions.

Informational Standards and Due Diligence: refers to serious concerns with regard to the internal consistency of data provided and/or with the professionalism and accuracy with regard to generating estimates.

1. Irreconcilable Differences in Classifications/Formats

There are several classifications and formats in which the budget information is presented. However, Parliament is not provided with a means of reconciling the information that is presented in different formats. This effectively creates irreconcilable differences between the copious information presented to Parliament in the form of budget estimates and the actual budget that is presented and approved by Parliament. This reflects a lack of appropriate standards and due diligence with regard to providing Parliament with sufficient information to make informed decisions. COPF has highlighted this problem to the MOF in the previous years, and notes that there has yet been no attempt to make a systemic improvement in the practices of information provision.

1.1. Differences in classifications

The estimates in the three-volume *Draft Budget Estimates* provided is in what is called the 'accounting classification'. The *Budget Speech*, with the final proposals and aggregate estimates are provided in what is called the 'economic classification'.

To explain the possible distinction in broad brush terms, one could identify expenditure by the source from which it originates, while the other could attempt to identify it by the source/economic-outcome that it benefits.

For instance, the provincial council salaries and wages are reported in the *Budget Speech* as 'salaries and wages' and in the *Draft Budget Estimates* as 'transfers'. These type of issues make comparability between documents an unreasonably onerous task. Therefore, when the numbers are reported in these two different formats, Members of Parliament have no means of reconciling them – unless the MOF provides additional information that enables that to be done.

Recommendation

- The MOF should report to Parliament through the COPF, three months before the next budget, on a systematic solution to the problem of budget information provided in dual formats, which renders the information non-comparable, and thereby undermines the ability of Parliament to carry out its budget debates and public finance management functions in an adequately informed manner.
- The budgetary work of Parliament is better served not only by having a large quantity of information, but also by having the information organised and reported in a manner that is more intelligible. MOF should therefore, reconsider the adequacy of its current reporting methodology to Parliament, with regard to the intelligibility and integrity of the information provided, and take steps to improve the same.

1.2. Lack of information to reconcile differences

The COPF has run into numerous difficulties in attempting to resolve the differences in numbers provided. While the problem is generated by the difference in reporting formats, it can also be alleviated by a commitment to provide explanatory information on the deviations, which allow for better interpretation and understanding by Parliament, even within the current formats of reporting. The following table shows significant deviations in the *Budget Speech*, from the Budget Estimates, for which explanatory information has not been provided.

Classification of revenue estimates, 2019 Budget
Values in LKR billions

Budget Speech		Updated Budget Estimates		Comparability
Revenue Component	Value	Revenue Component	Value	
Total revenue & grants	2,464	Total revenue & grants	2,506	Not Reconcilable (+42)
Tax revenue	2,077	Tax revenue	2,077	Reconcilable
of which taxes on external trade	399	o/w taxes on international trade	401	Not Reconcilable (+2)
of which taxes on goods and services	1,293	o/w taxes on domestic goods & services	1,243	Not Reconcilable (- 2)

Budget Speech		Updated Budget Estimates		Comparability
Revenue Component	Value	Revenue Component	Value	
		o/w license taxes & others	48	
of which income tax	385	o/w taxes on income & profits	385	Reconcilable
Non-tax revenue	267	Non-tax revenue	312	Not Reconcilable (+45)
Provincial council tax sharing and devolved revenue	107	Provincial council revenue	107	Reconcilable
Grants	13	Foreign grants	10,000	Not Reconcilable (-3)

Source: Updated Budget Estimates 2019; Budget Speech 2019.

Classification of expenditure estimates, 2019 Budget

Values in LKR billions

Budget Speech		Updated Budget Estimates		Comparability
Expenditure Component	Value	Expenditure Component	Value	
Total expenditure	3,149	Total expenditure	3,341	Not Reconcilable (+192)
- Recurrent expenditure	2,415	- Recurrent expenditure	2,413	Not Reconcilable (-2)
of which Salaries & wages	778	o/w Personal emoluments	541	Not Reconcilable (-237)
of which Goods & services	178	o/w Goods & services*	255	Not Reconcilable (-77)
of which Interest	913	o/w Interest payments	900	Not Reconcilable (-13)

Budget Speech		Updated Budget Estimates		Comparability
Expenditure Component	Value	Expenditure Component	Value	
of which Transfers	546	o/w Transfers	717	Not Reconcilable (+171)
- Capital expenditure	756	- Capital expenditure	928	Not Reconcilable (+172)

* Goods & services expenditure is considered to be all other recurrent expenditure other than personal emoluments, subsidies & transfers and interest payments.

Source: Updated Budget Estimates 2019; Budget Speech 2019.

Recommendation

- That the MOF provide to Parliament a full reconciliation/explanation of the differences between the figures in the *Budget Speech* and the Budget Estimates, that were provided to Parliament. This should include all the discrepancies noted above as well as any others that exist.

2. Differences in Macroeconomic Forecasts

The medium-term macro fiscal framework is a critical basis of the Budget Estimates. The Committee has identified that there are differences/changes in the macroeconomic assumptions used/published, without an attempt to provide reasonable justification, and without making Parliament adequately aware of these very significant changes/differences that might result. Some of these problematic differences/changes are mapped out in the following table.

Macroeconomic assumptions in different source documents

	2019 Fiscal Management Report	2019 Draft Budget Estimates	2019 Budget Speech	Information MOF provided to COPF after the budget speech
Real GDP Growth Rate	3.5-4.5%	3.5-4.5%	3.5%	4%
Exchange Rate	N/A	N/A	N/A	182
Overall Budget Balance (% of GDP)	4.8%	N/A	4.4%	4.4%
Primary Budget Balance	0.9%	N/A	1.5%	1.5%

	2019 Fiscal Management Report	2019 Draft Budget Estimates	2019 Budget Speech	Information MOF provided to COPF after the budget speech
(% of GDP)				
Government Debt-to-GDP Ratio	83.6%	N/A	83.0%	N/A

Source: As Listed.

The following issues have been noted with respect to the assumptions framework:

- The real GDP growth rate projections differ between published and unpublished documents. While the published *Budget Speech* states that this is projected to be 3.5% in 2019, in the same week, the MOF, in unpublished documents, represented to the Committee, that in formulating the budget, the number used for GDP growth projections was 4%. (see Table above).
- Because of the very large impact of the assumptions framework in all of the estimates that are provided for the budget, the COPF, which has the mandate to report on the assumptions framework, requested the MOF to provide the underlying basis/sources for the assumptions selected. The MOF represented verbally that they depend on third party assessments, such as the Central Bank of Sri Lanka. However, it has not been able to confirm in writing the sources or bases for the assumptions framework, and the section of the template provided for that information was returned blank. This creates a concern about the due diligence and professionalism, that underlies the assumptions framework on which all the Budget Estimates depend.
- The underlying basis for future projections of key macroeconomic indicators are unclear. While the MOF claims not to make forecasts on indicators, they also fail to provide in writing the sources, or other justifications for the sources, that are selected for their medium-term macro fiscal framework. A historical analysis of the Budget also shows that the medium-term assumptions frameworks have been significantly off the mark, and generally in a direction that painted an overly positive outlook for the future, which has the effect of misleading Parliament about the consequences of present budgetary decisions.

Recommendation

- The MOF has not been able to provide further information about the source of its assumptions framework. It is dangerous for public finance management, if the assumptions framework that underlies all aspects of the budget estimates, is selected in too cavalier a manner, without adequate due diligence and responsibility. Since the MOF has not been able to justify its assumptions framework, it is recommended that the Central Bank be invited to formally assess and confirm to Parliament the adequacy and validity of the assumptions framework that has been tabled for the current budget.

Annexes

Annex 1: Documents Provided by the Ministry of Finance to the COPF

Date	Document Title
22.02.2019	Contingent Liabilities
	Vehicle Database
26.02.2019	Fuel Pricing Formula
27.02.2019	Debt Repayment Schedule
	Contingent Liabilities
06.03.2019	Macro-Economic Assumptions
	Updated Budget Estimates Revenue
	Updated Budget Estimates Expenditure
	Information on Fiscal Rules
	Government Decisions
08.03.2019	Expected and Actual Revenue from Ministry of Finance
	Monthly Debt Servicing (Interest) Forecast -2019 from Ministry of Finance
11.03.2019	New Revenue Proposals
	Actual Revenue in line with the Budget Proposals
	Underlying Basis and Revenue Implication on Betting and Gaming
	Underlying Basis for Excise Tax on Liquor
	Underlying Basis and Revenue Implications on Cigarettes
	Projected Excise Duty Revenue from Cigarettes
	Cigarette Tax Mechanism
	Maternity Leave Benefits Calculation
	Letter from Ministry of Health on Tax on sugar content in sweetened beverages
	Commentary from the Ministry of Finance on the revisions made to the tax on sugar content in sweetened beverages

Annex 2: Updated Budget Estimates provided by the Ministry of Finance to the COPF

		2017 Actual	2018 Provisional	2019 In line with Budget Speech	Underlying assumptions in estimating revenue
	Total Revenue (Tax + Non-Tax + Provincial Council Revenue)				
	Tax Revenue	1,670,178,219	1,712,317,538	2,077,000,000	Tax buoyancy couple with the past data, projections of the macro economic variables (economic growth, inflation, unemployment, exchange rate, BOP etc) as well as the medium term expectations of fiscal policy targets together with behaviour of the international trade and Revenue Estimates for 2019 provided by the respective Revenue Accounting Officers (RAOs) pertaining to the relevant revenue codes basically used as a foundation for the preparation of revenue estimates 2019
1	Taxes on International Trade	371,336,120	341,710,101	400,640,000	<ul style="list-style-type: none"> Upward revisions of Customs Import duty (CID) on selected goods including tobacco and liquor
1.1.	Import Duties	136,501,263	96,990,576	140,000,000	<ul style="list-style-type: none"> Granting PAL concessions on selected 525 items of high tech machinery and equipment and machinery used in lapidaries in Gem and Jewellery industry Remove CID and CESS on Go-Karts and the tyres used in Karts Phase out import cess on selected items
1.2.	Export Duties	30,211	39,688	40,000	
1.3.	Import & Export License Fees	1,487,762	1,554,482	1,600,000	
1.4.	Cess Levy	59,554,404	53,368,978	54,000,000	
1.5.	Ports & Airport Development Levy	102,360,159	113,949,870	115,000,000	

		2017 Actual	2018 Provisional	2019 In line with Budget Speech	Underlying assumptions in estimating revenue
1.6.	Special Commodity Levy	71,402,321	75,806,508	90,000,000	<ul style="list-style-type: none"> Rate changes on SCL liable items to protect domestic produces
1.7.	Other	-	-	-	<ul style="list-style-type: none"> Positive impact on the Oil price formula and periodical reduction of duty waivers Increasing petrol and diesel consumption as a results of strengthening passenger transport and full operation of bunkering facilities Diminishing growth of rubber and coconut exports Expectation of drought condition in dry zone areas due to weather forecast on below normal rain in 2019
2	Taxes on Domestic Goods and Services	1,016,296,433	1,046,819,356	1,243,245,000	
2.1.	Value Added Tax (VAT)	443,739,475	461,650,625	529,000,000	<ul style="list-style-type: none"> Remove the VAT exemption on supply of condominium housing units with effect from 01 April, 2019 Revision of VAT rate applicable on disposal of garments by BOI approved enterprises to the local market Full gain of removal of VAT exemptions on electronic items, machinery, camera, aeroplane and parts, woods and articles etc. with effects from August 16, 2018 Discouraging the VAT exemptions granted on specified projects Introduction of pool proof stickers on liquor bottles
2.2.	Excise (Ordinance) Duty	113,214,009	113,890,332	135,000,000	
2.2.1	Liquor	113,214,009	113,890,332	135,000,000	
2.3.	Excise (Special Provisions) Duty	356,239,838	370,351,175	458,000,000	
2.3.1	Cigarettes	85,956,031	92,198,106	115,000,000	
2.3.2	Liquor	469,564	53,275	-	
2.3.3	Petroleum Products	73,983,162	66,318,296	90,000,000	
2.3.4	Motor Vehicles	189,739,774	204,080,799	240,000,000	

		2017 Actual	2018 Provisional	2019 In line with Budget Speech	Underlying assumptions in estimating revenue
2.3.5	Other	6,091,307	7,700,699	13,000,000	<ul style="list-style-type: none"> • Upward duty changes on cigarette • Revision of excise duty on motor vehicles • Imposition of excise duty on palm oil fatty acids and tallow fatty acids • Revision of excise duty on beverages based on sugar contained in the product • Upward revision of excise duty on refrigerators • Expectation of tourist arrivals and upward revision of excise duty rates on both hard liquor and soft liquor • Implementation of price formula on petroleum products • Increasing demand on petroleum products with the expansion of passenger transport and increase of the vehicle fleet • Strengthening tax administration including tax auditing under the RAMIS programme at IRD
2.4.	Tobacco Tax	45,750	45,367	45,000	<ul style="list-style-type: none"> • Reduction of tobacco consumption due to increase of CESS levy on importation of beedi leaves together with measures taken by the government to discourage the consumption of tobacco
2.5.	Telecommunications Levy	33,398,732	28,326,248	25,000,000	<ul style="list-style-type: none"> • Removal of International Telecommunication Operations Levy (ITOL) • Decreasing trend on both incoming and outgoing international calls

		2017 Actual	2018 Provisional	2019 In line with Budget Speech	Underlying assumptions in estimating revenue
2.6.	Nation Building Tax (NBT)	69,035,199	71,357,384	91,000,000	<ul style="list-style-type: none"> • Imposition of NBT on manufacturing of cigarette and on foreign payments made using Electronic Fund Transfer Cards to purchase goods or services including offshore digital services • Full gain of removing tax exemptions on certain items such as liquor with effect from July 30, 2018 • Discouraging the NBT exemptions granted on specified projects • Strengthening tax administration and tax auditing under the RAMIS programme at IRD.
2.7.	Tele-drama, Film and Commercials Levy	584,709	1,068,301	1,200,000	<ul style="list-style-type: none"> • Increasing trend of dubbing of foreign telegrams and other commercial advertisement
2.8.	Cellular Tower Levy	-	-	1,000,000	<ul style="list-style-type: none"> • Introduction of annual Cellular Tower Levy of Rs. 200,000/- per Tower and encourage telecommunication service providers for starting 5 G coverage Island wide • Imposition of SMS Advertising levy (25 Cts for each SMS for around 28 million of mobile phones sent by the major operators)
2.9.	SMS Advertising Levy	-	-	3,000,000	
3	License Taxes & Others	7,984,101	13,338,766	48,115,000	
3.1.	Luxury Motor Vehicle Tax	1,286,942	1,036,073	8,850,000	<ul style="list-style-type: none"> • Imposition of Luxury tax based on the value of the

		2017 Actual	2018 Provisional	2019 In line with Budget Speech	Underlying assumptions in estimating revenue
3.2.	Betting & Gambling Levy	1,929,035	2,469,579	3,500,000	vehicle and tax to be collected from Sri Lanka Customs at the point of importation of the vehicle.
3.3.	Share Transaction Levy	1,333,905	1,196,347	1,610,000	<ul style="list-style-type: none"> • Revision of annual levy, tax on gross collection and entrance fee of casino and rudjino games
3.4.	Other Licences	3,354,571	8,574,446	34,116,000	<ul style="list-style-type: none"> • Strengthening of share market
3.4.1	Registration fees relevant to the Department of Registrar-General	1,282,402	1,401,961	1,450,000	<ul style="list-style-type: none"> • Imposing carbon tax on any vehicle other than for the first year of vehicle registration
3.4.2	Company Registration Levy	890	-	-	<ul style="list-style-type: none"> • Imposing value addition attributable to the supply of financial services by each such institution at a rate of 7 % with effects on 1 November, 2018
3.4.3	Carbon Tax	-	-	2,000,000	
3.4.4	Vehicle Entitlement Levy	1,650,961	2,191,685	2,200,000	<ul style="list-style-type: none"> • Increasing trend of land and other registrations • Growth of motor vehicle imports
3.4.5	Debt Repayment Levy	-	4,501,167	28,000,000	<ul style="list-style-type: none"> • Capacity development of the government institutions
3.4.6	Other	420,318	479,633	466,000	<ul style="list-style-type: none"> • Expansion of construction industry
3.5.	Other	79,648	62,322	39,000	<ul style="list-style-type: none"> • Government intervention towards developing SMEs through enterprise Sri Lanka
4	Taxes on Income & Profits	274,561,565	310,449,315	385,000,000	<ul style="list-style-type: none"> • Full gain of the implementation of IRD Act involving rate changes of dividend, remittance tax and withholding tax
4.1.	Corporate Tax	132,871,564	159,133,187	183,000,000	
4.1.1	Income Tax	107,613,439	127,000,563	149,000,000	<ul style="list-style-type: none"> • Removal of exceptions
4.1.2	Dividend Tax	17,073,747	21,470,317	24,000,000	

		2017 Actual	2018 Provisional	2019 In line with Budget Speech	Underlying assumptions in estimating revenue
4.1.3	Remittance Tax	8,184,378	10,662,307	10,000,000	<ul style="list-style-type: none"> Increasing basic salary of the government officials and expand private sector jobs Positive impact on the enterprise Sri Lanka concessionary loan scheme Increasing saving habits as a results of policy rates changes Changing of tax base and imposing ESC on selected goods Strengthening tax administration including tax auditing under the RAMIS
4.2.	Non-Corporate Tax	43,636,430	51,819,713	83,000,000	
4.2.1	PAYE	32,920,266	41,384,710	65,000,000	
4.2.2	Other	10,716,164	10,435,002	18,000,000	
4.3.	Withholding Tax	53,333,813	46,413,758	52,000,000	
4.3.1	On Interest	51,350,859	35,991,294	41,500,000	
4.3.2	On Fees & Other	1,982,953	10,422,464	10,500,000	
4.4.	Economic Service Charge	44,719,758	52,978,509	65,000,000	
4.5	Capital Gain Tax	-	104,148	2,000,000	
	Non-Tax Revenue	236,078,244	356,574,841	312,000,000	
5	Revenue from Departmental Enterprises	13,749,836	15,403,037	16,870,000	<ul style="list-style-type: none"> Increase the price of tickets by 15%, expansion of passenger and goods transport by railway with the expansion of trains fleet
5.1.	Railways	6,489,632	7,412,516	8,600,000	
5.2.	Postal	6,996,941	7,709,579	8,000,000	
5.3.	Other	263,263	280,942	270,000	<ul style="list-style-type: none"> Expansion of the postal service delivery competing with the private sector by applying modern technology
6	Return on Government Assets	65,843,103	55,551,320	88,000,000	<ul style="list-style-type: none"> Establishment of new buildings and circuit bungalow and increasing basic salary Increasing rent in government lands Increasing lease rental and fees of the contract agreements for rent on building
6.1.	Rent	4,449,840	5,582,744	8,000,000	
6.2.	Interest	7,395,380	8,140,587	10,000,000	
6.3.	On Lending	4,648,586	6,212,829	7,000,000	
6.4.	Profits	50,447,214	37,230,000	63,900,000	
6.5.	Dividends	3,550,670	4,597,990	6,100,000	

		2017 Actual	2018 Provisional	2019 In line with Budget Speech	Underlying assumptions in estimating revenue
6.6.	Other	-	-	-	<ul style="list-style-type: none"> • Collection of arrears revenue made by the plantation companies • Increasing variable interest rate/ exchange rate • Increase performance of the SOEs towards profitable enterprises.
7	Sale Proceeds & Charges	70,227,033	108,338,728	129,730,000	<ul style="list-style-type: none"> • Rate changes of fees and charges
7.1.	Departmental Sales	120,682	162,290	170,000	<ul style="list-style-type: none"> • Increasing embarkation levy rates and enhancing tourist arrivals
7.2.	Administrative Fees and Charges	50,032,912	60,535,102	70,205,000	<ul style="list-style-type: none"> • Revision of passport fees • Strengthening raids at customs
7.3.	Fines & Forfeits	3,471,043	7,046,276	7,125,000	<ul style="list-style-type: none"> • Impact on increasing penalty on infraction of laws related to vehicle driving
7.4.	Public Officer's Motor Cycle Premium	55,805	38,887	-	<ul style="list-style-type: none"> • Expectation of variance on treasury bond premium according to the market behaviour
7.5.	Treasury Bonds Premium	7,246	582,208	880,000	<ul style="list-style-type: none"> • Positive trend in vehicle transferring
7.6.	Revenue from UN Peacekeeping Operations	3,644,516	2,518,435	3,850,000	<ul style="list-style-type: none"> • Positive impact of widen the revenue generated activities pertaining to the Agriculture Department
7.7.	Other Receipts	12,894,829	37,455,530	47,500,000	<ul style="list-style-type: none"> • Increasing domestic commercial air transports with the development of domestic air ports and tourist arrivals
8	Social Security Contributions	22,940,414	25,213,647	30,000,000	<ul style="list-style-type: none"> • Participation for UN mission and impact of depreciation of rupee against USD,
9	Current Transfers	2,078,732	18,260,787	19,000,000	<ul style="list-style-type: none"> • Impact on basic salary hike
10	Capital Proceeds	61,239,126	133,807,322	28,400,000	

		<i>2017 Actual</i>	<i>2018 Provisional</i>	<i>2019 In line with Budget Speech</i>	Underlying assumptions in estimating revenue
11	Foreign Grants	8,031,088	12,294,346	10,000,000	<ul style="list-style-type: none"> • Expectation of revenue increase of the national lottery board • Impact on fluctuating of exchange rate and commitment of new loan repayments • Declining of receiving foreign grants due to increase of per capita income • Strengthening government institutions through capacity development by introducing modern technology
	Provincial Council Revenue	91,699,420	-	107,240,000	<ul style="list-style-type: none"> • Estimates submitted by respective agencies
12	Transfers by the Government	47,854,002	-	59,253,000	
13	Devolved Revenue	43,845,418	-	47,987,000	

Rs '(000)

Object code	Expenditure Category	2017	2018	2019	Underlying assumptions in estimating expenditure
			<i>Revised Estimate</i>	<i>Estimate</i>	
	Recurrent Expenditure	1,945,582,111	2,183,045,191	2,413,204,158	
	* Personal Emoluments	463,873,834	497,379,149	540,810,072	
1001	Salaries and Wages	223,786,923	266,670,345	322,827,743	<ul style="list-style-type: none"> • Considered the basic salary and the annual increment • Allocations made depending on the actual carder as at 30.06.2018 • Considered the progressive salary revisions per the PA circular No. 3/2016 as at 01.01.2019 • Provision for filling of the vacancies of the approved carder is not included • If a special need arises to recruit employees for a particular post or posts, the said requirement will be managed within the provisions
1002	Overtime and Holiday Payments	20,466,960	29,071,770	31,021,584	<ul style="list-style-type: none"> • Actual Expenditure of previous years were considered • Considered days' pay, duties such as postal, customs, railway, health and Inland Revenue • Estimates are based on the general circulars and guidelines apart from that, special approvals for paying OT in several government agencies due to the nature of the duty

Object code	Expenditure Category	2017	2018	2019	Underlying assumptions in estimating expenditure
			<i>Revised Estimate</i>	<i>Estimate</i>	
1003	Other Allowances	219,619,952	201,637,035	186,960,745	<ul style="list-style-type: none"> • Estimated common allowances applicable to all the employees - COLA, matching Allowance, & Language allowance • Considered the special allowances particularly, the nature of the institutes- 1/3rd allowances, research allowance, professional allowance, DAT, and book allowance etc. • Matching allowance gets absorbed into the basic salary as per progressive salary increase in terms of PA circular 3/2016 • Provisions for the interim allowance of Rs. 2,500 /- announce by the Budget speech is allocated under the Budget dept under same object code
	* Travelling Expenses	14,743,474	15,308,540	15,004,785	
1101	Domestic	12,326,680	12,721,768	12,812,705	<ul style="list-style-type: none"> • Estimate is based on the number of officers and the relevant guidelines • Maintained the average actual expenditure of previous years • Considered special functions of a particular spending agencies

Object code	Expenditure Category	2017	2018	2019	Underlying assumptions in estimating expenditure
			<i>Revised Estimate</i>	<i>Estimate</i>	
1102	Foreign	2,416,794	2,586,772	2,192,080	<ul style="list-style-type: none"> • Considered the requirement of attending seminars, meetings, training programmes and conferences, planned in the budget year • Considered the utilization of the previous year and the number of eligible employees who attend the above • Considered special requirements for foreign travel depending on the functions of the spending agency
	* Supplies	89,609,992	105,662,527	112,762,934	
1201	Stationery and Office Requisites	2,779,645	3,072,096	2,973,586	<ul style="list-style-type: none"> • Considered the actual expenditure of the previous years • Considered the current requirements of the spending agency and the nature of the functions
1202	Fuel	14,948,954	16,872,441	17,990,199	<ul style="list-style-type: none"> • Considered the number of vehicles in the particular spending agency • The fleet of vehicles are analysed to observe the difference of the requirement among agencies • Considered the Number of eligible officers • Estimated on the circular instructions and the stipulated guidelines.

Object code	Expenditure Category	2017	2018	2019	Underlying assumptions in estimating expenditure
			<i>Revised Estimate</i>	<i>Estimate</i>	
1203	Diets and Uniforms	25,228,394	30,670,222	36,387,389	<ul style="list-style-type: none"> • Considered the particular agencies and the employees such as, health, tri-forces, police, wildlife, railways etc. • Estimate corresponds to the eligible number of employees each spending agency in terms of the circular instructions • Also considered is the actual expenditure of previous years
1204	Medical Supplies	41,061,896	48,912,055	48,059,490	<ul style="list-style-type: none"> • Considered the actual requirement and the policy changes
	Other	5,591,103	6,135,713	7,352,270	<ul style="list-style-type: none"> • Considered the specific requirement of respective agencies
	* Maintenance Expenditure	6,625,434	7,834,074	8,412,490	
1301	Vehicles	3,460,814	3,812,223	3,824,150	<ul style="list-style-type: none"> • Reduced the estimate due to provision of new vehicles through financial leasing method and on Operational Leasing Method • Considered the actual expenditure
1302	Plant and Machinery	2,174,306	2,776,380	3,325,510	<ul style="list-style-type: none"> • Considered the agreements, contractual obligations and maintenance plans • Considered the actual expenditure and the justified requirement
1303	Buildings and Structures	990,314	1,245,471	1,262,830	<ul style="list-style-type: none"> • Estimates are based on the justified requirement of spending agencies and maintenance plans
	* Services	53,472,230	83,586,197	77,885,932	

Object code	Expenditure Category	2017	2018	2019	Underlying assumptions in estimating expenditure
			<i>Revised Estimate</i>	<i>Estimate</i>	
1401	Transport	4,564,492	5,531,312	6,011,325	<ul style="list-style-type: none"> • Considered the requirement based on the details such as number of officers who obtained vehicle allowance, and the nature of the functions of the office.
1402	Postal and Communication	3,676,782	4,238,651	4,042,560	<ul style="list-style-type: none"> • Considered the last year actual expenditure • If there is any tax/fee revision, the estimate for budget year will be adjusted accordingly.
1403	Electricity & Water	10,319,237	11,648,888	11,633,650	<ul style="list-style-type: none"> • Considered the last year actual expenditure • If there is any tax/fee revision, the estimate for budget year will be adjusted accordingly.
1404	Rents and Local Taxes	6,406,742	7,538,403	7,722,744	<ul style="list-style-type: none"> • Building rents based on the signed agreements for the rented property • Rates, as per the current rates of local authority charges.
1406	Interest Payment for Leased Vehicles	1,445,847	1,596,721	571,773	<ul style="list-style-type: none"> • This is limited to a few spending agencies and the amount is decided as per the lease agreements.
1408	Lease Rental for Vehicles Procured Under Operational Leasing	371,714	1,263,304	1,068,430	<ul style="list-style-type: none"> • The allocation is decided relying on the number of vehicles approved for purchase by the NBD. However, the rent of vehicles purchased for government institutions will be based on the nature of the institutions. Revenue making institutions should bear the costs so purchased.

Object code	Expenditure Category	2017	2018	2019	Underlying assumptions in estimating expenditure
			<i>Revised Estimate</i>	<i>Estimate</i>	
1409	Other	26,687,417	51,768,917	46,835,450	<ul style="list-style-type: none"> • Considered the service agreements for security, janitorial services, Insurance etc. and the last year expenditure • Include recurrent provisions for newly created Institutions by Budget proposals such as Revenue Intelligence Unit, Office for reparation.
	* Transfers	580,556,656	619,410,118	717,382,088	
1501	Welfare Programmes	115,438,844	119,563,000	142,915,300	<ul style="list-style-type: none"> • Considered the welfare schemes and No. of Beneficiaries, policy decisions etc.
1502	Retirements Benefits	182,983,877	199,543,645	235,493,725	<ul style="list-style-type: none"> • Considered the total no. of pensioners and the net increase in the budget year. • Recent changes in pension payments.
1503	Public Institutions	71,924,195	79,955,150	84,498,250	<ul style="list-style-type: none"> • Considered the review of the Final Accounts and ascertain the income level and the expenditure requirement. • Government contribution is ascertained being based on the relevant Acts, Cabinet decisions, agreements etc.
1504	Development Subsidies	36,788,439	31,115,321	53,185,530	<ul style="list-style-type: none"> • Estimation is based on the requirement of existing Subsidy programmes • Consider the Governments policy priorities
1505	Subscriptions and Contributions Fee	1,563,031	2,044,007	2,526,580	<ul style="list-style-type: none"> • Based on the Agreements and the recommendation of ERD • Considered the increase of exchange rate

Object code	Expenditure Category	2017	2018	2019	Underlying assumptions in estimating expenditure
			<i>Revised Estimate</i>	<i>Estimate</i>	
1506	Property Loan Interest to Public Servants	2,619,214	2,807,492	2,868,057	<ul style="list-style-type: none"> • Considered the actual up to June, of current year
1507	Grants to Provincial Councils	166,348,492	180,095,059	190,700,000	<ul style="list-style-type: none"> • Based on the projections and the recommendations of the Finance Commission
1508	Other	2,890,563	4,286,444	5,194,646	<ul style="list-style-type: none"> • Considered the specific requirement of respective institutes such as the payment of compensations for employees .
	* Interest Payments and Discounts	735,565,677	853,587,000	900,060,468	
1601	Interest Payments for Domestic Debt	442,728,839	485,527,080	556,758,501	<ul style="list-style-type: none"> • Distribution Pattern of the TBs -3 months -10% , 182 days -35% , one year - 55% , • T/bills interest rate before tax -3 months - 9.25% 182 days - 9.85% , one year -10.65% , Average coupon rate 11.5% , face value 100 and book value 93 • T/bonds average interest rate -11.65% , Average coupon rate 11.5% , average maturity 7.5 , accrued interest /face value(%) -1% , • Foreign currency debt-SLDB issues 1200 USD mn, Margin over LIBOR for SLDBs = 3.85% , • Foreign currency debt- OBU new issues 775 USD mn, interest rate fixed 7%

Object code	Expenditure Category	2017	2018	2019	Underlying assumptions in estimating expenditure
			<i>Revised Estimate</i>	<i>Estimate</i>	
1602	Interest Payments for Foreign Debt	138,545,955	184,532,440	220,060,358	<ul style="list-style-type: none"> • Exchange rate USD1 = 182 LKR, • Average interest rate for Foreign Loan-Concessional 2.35% • Average interest rate for Foreign Loan-Commercial 7.0%
1603	Discounts on Treasury Bills and Treasury Bonds	154,290,883	183,527,480	123,241,609	<ul style="list-style-type: none"> • Based on the discount applicable for the issued T/bills and T/bonds • Consider the outstanding T/bond stock as at 31/12/2018
	* Other Recurrent Expenditure	1,134,813	277,587	40,885,389	
1701	Losses and Write off	1,087,255	150,017	636,011	<ul style="list-style-type: none"> • Considered the requirement and approval of the last year
1702	Contingency Services	2,625	71,244	40,181,883	<ul style="list-style-type: none"> • Relied on the experience of previous years
1703	Implementation of the Official Languages Policy	44,933	56,326	67,495	<ul style="list-style-type: none"> • Considered the requirement of the Agency
	Capital Expenditure	657,508,873	878,421,906	927,712,162	
	* Rehabilitation and Improvement of Capital Assets	24,848,138	38,407,220	37,887,235	
2001	Buildings and Structures	14,115,453	23,594,882	22,707,540	<ul style="list-style-type: none"> • Considered the specific requirement of respective agencies.
2002	Plant, Machinery and Equipment	5,986,713	8,826,800	9,109,110	<ul style="list-style-type: none"> • Considered the specific requirement of respective agencies.

Object code	Expenditure Category	2017	2018	2019	Underlying assumptions in estimating expenditure
			<i>Revised Estimate</i>	<i>Estimate</i>	
2003	Vehicles	4,745,971	5,985,537	6,073,865	<ul style="list-style-type: none"> Considered the age analysis and the fleet of vehicles available, Maintenance schedules of special vehicle such as flights, vessels etc..
	* Acquisition of Capital Assets	121,006,915	174,201,740	169,433,541	
2101	Vehicles	11,056,554	16,010,525	17,437,200	<ul style="list-style-type: none"> Allocations are provided only for mass transport vehicles and other special purpose vehicles. Allocation for Passenger transport vehicles such as cars, Jeeps, Vans, Cabs are provided case by case after granting approvals as supplementary allocations
2102	Furniture and Office Equipment	5,686,078	12,679,186	13,312,401	<ul style="list-style-type: none"> Consider the specific requirement of respective institute.
2103	Plant, Machinery and Equipment	12,700,978	23,748,736	21,489,594	<ul style="list-style-type: none"> Consider the specific requirement of respective institute.
2104	Buildings and Structures	58,109,211	81,438,971	80,503,860	<ul style="list-style-type: none"> Since the Govt. has taken a policy decision not to commence new constructions, allocations are provided only for ongoing constructions.
2105	Land and Land Improvements	24,389,499	25,793,215	28,550,800	<ul style="list-style-type: none"> Consider the specific requirement of respective institute.
2106	Software Development	4,357,012	9,038,793	2,609,800	<ul style="list-style-type: none"> Consider the specific requirement of respective institute.
2108	Capital Payments for Leased Vehicles	4,707,582	5,492,313	5,535,286	<ul style="list-style-type: none"> Based on the number of vehicles procure under the method of financial leasing
	* Capital Transfers	126,204,233	155,109,851	153,389,779	

Object code	Expenditure Category	2017	2018	2019	Underlying assumptions in estimating expenditure
			<i>Revised Estimate</i>	<i>Estimate</i>	
2201	Public Institutions	56,232,123	77,747,059	82,416,730	<ul style="list-style-type: none"> Asserting the requirement of Capital expenditure for each institution based on their requirement
2202	Development Assistance	44,241,033	45,519,043	38,960,164	<ul style="list-style-type: none"> Include approved programmes based on last year expenditure
2203	Grants to Provincial Councils	23,486,380	25,785,940	27,000,000	<ul style="list-style-type: none"> Based on the recommendations of the Finance Commission
2204	Transfers Abroad	1,614,000	3,634,400	1,830,000	<ul style="list-style-type: none"> Provision for the payment of contribution fee for the Asian Infrastructure investment bank.
2205	Capital Grants to Non-Public Institutions	630,697	2,423,409	3,182,885	<ul style="list-style-type: none"> Consider the specific requirement of respective institute.
	* Acquisition of Financial Assets	32,719,322	27,047,275	36,745,000	
2301	Equity Contribution	13,575,553	8,785,075	22,100,000	<ul style="list-style-type: none"> Capitalization of loan repayments pertaining to Norochchole power plant and Water projects
2302	On - Lending	19,143,769	18,262,200	14,645,000	<ul style="list-style-type: none"> Based on the requirement of existing lending schemes
	* Capacity Building	6,661,353	9,183,318	7,148,157	
2401	Staff Training	6,661,353	9,183,318	7,148,157	<ul style="list-style-type: none"> Based on requirements of the requirement of spending agencies and last year expenditure
	* Other Capital Expenditure	346,068,911	474,472,503	523,108,450	
2501	Restructuring	3,857,607	2,554,013	737,500	<ul style="list-style-type: none"> Allocations for the Restructuring of Defunct Institutions
2502	Investments	57,301	-	-	<ul style="list-style-type: none"> This Object code is not in use now

Object code	Expenditure Category	2017	2018	2019	Underlying assumptions in estimating expenditure
			<i>Revised Estimate</i>	<i>Estimate</i>	
2503	Contingency Services	3,453	268,853	39,997,320	<ul style="list-style-type: none"> Total provision for Contingency services is set as less than 2% of total budget and this is almost 1/2 of the total allocation
2504	Contribution to Provincial Councils	11,024,802	10,271,590	10,385,000	<ul style="list-style-type: none"> Based on the requirement of existing Special development projects other than the projects included under PSDG or CBG
2505	Procurement Preparedness	33,081	299,843	354,900	<ul style="list-style-type: none"> Based on requirements of the spending agencies
2506	Infrastructure Development	293,569,027	375,539,918	360,431,160	<ul style="list-style-type: none"> Based on the requirement of existing infrastructure development projects
2507	Research and Development	2,453,929	11,097,284	8,322,830	<ul style="list-style-type: none"> Requirement of the ongoing programmes submitted by the spending
2509	Other	35,069,712	74,441,001	102,879,740	<ul style="list-style-type: none"> Capital expenditure which are not coming under above categories.
	Public Debt Amortization	867,483,511	1,236,362,150	1,300,000,000	
	* Public Debt Repayments	867,483,511	1,236,362,150	1,300,000,000	
3001	Domestic	648,133,870	929,346,710	635,275,235	<ul style="list-style-type: none"> Based on the repayment schedules for the actual domestic public debt stock and expected short-term borrowings in 2019
3002	Foreign	219,349,640	307,015,440	664,724,765	<ul style="list-style-type: none"> Based on the repayment schedules for the actual foreign public debt stock and Exchange rate as at USD 1 = 180 LKR
	Total Expenditure	3,470,574,495 +	4,297,829,248	4,640,916,320	

Annex 3: Revenue Proposals as Provided by the MOF to the COPF on 11 March 2019

No	New Revenue Proposals	Proposal Description	Proposed Revenue Impact
1	Revision of Customs Import Duty	Revision of Customs Import Duty on Selected Goods including tobacco, fruit drinks and liquor and reduction of duty waivers on selected Goods)	Additional Revenue of Rs. 20 Bn
2	Revision of Embarkation Fee	The Embarkation Fee of US \$ 50 has been imposed and US\$ 35 per Passenger will be credited to the Consolidated Fund. Any increase of Embarkation can fully be credited to the Consolidated Fund	Proposal to Increase the Embarkation Levy by US \$ 10 to US\$ 60 per Passenger. <i>(Increased US\$ 10 shall be credited to the Consolidated Fund)</i> Additional Revenue of Rs. 7.0 Bn
3	Revision of CESS Duty on Tendu Leave	Importation of Beedie Leave is subject to CID of 15%, PAL, NBT and CESS of 30% or Rs.2,500 / Kg Disposal of forfeited illicit Beedie Leaves shall be subject to Payment of All Duties and Taxes in addition to the Auction Price of Beedie Leaves	Increase the CESS duty from of Rs. 3,500 / Kg on Beedie Leaves effective and Payment of Applicable Taxes on Auction of illicit Beedie Leaves Additional Revenue of Rs.2.0 Bn
4	Revision of Excise Duty on Cigarette	Excise duty on Cigarettes will be revised by 12% per stick	Proposal to Revise the Excise duty on Sale of Cigarette by 12%: Additional Revenue of Rs. 13.0 Bn
5	Revision of Excise Duty on Liquor	Excise duty Liquor will be revised by 08% on Hard Liquor and 12% on Malt Liquor (Local and Imported)	Additional Revenue of Rs. 21.0 Bn
6	Introduction of Luxury Tax on CIF Value basis	Luxury Tax on the motor vehicles was applied on the basis of Engine Capacity upto end of Dec 2018 and it will be revised to apply on the CIF Value with a Luxury Tax Free Threshold	Additional Revenue of Rs. 15.0 Bn
7	Imposition of NBT on Foreign Payments	Stamp duty of 2.5% on foreign payments made by using the Credit Cards will be replaced by NBT of	Additional Revenue of Rs. 1.5 Bn

No	New Revenue Proposals	Proposal Description	Proposed Revenue Impact
		3.5% on Foreign Payments including online payments for off-shore services	
Sub Total			Rs.77.5 Bn
No	New Revenue Proposals	Existing Scenario	Proposed Scenario
7	Revision of Passport Fee	Fee on Issuance / Alteration of Passports will be revised by as follows; Alteration Fee of Rs. 500 / Unit Single Day Service Fee of Rs. 10,000 Normal Service Fee of Rs.3,000	Additional Revenue of Rs. 1.0 Bn
8	Introduction of Number Plates with Personal Name or Special Numbers	Introduction and Auction of Number Plates with Personal Name or Special Numbers Revision of Rate for Rs.70,000 to Rs. 250,000	Additional Revenue of Rs.1.0 Bn
9	Introduction of Tourism Development Levy	Tourism Development Levy (Small Segments)	Additional Revenue of Rs.2.0Bn
10	Revision of Fees and Charges	Revision of Fees and Charges by 15%	Additional Revenue of Rs.15.0 Bn
11	Revision of Excise Duty on Importation of Motor Vehicles	Revision of Excise Duty Rate on Importation of all types of Motor Vehicles by 15% and Release of Vehicles Pending for Release by Sri Lanka Customs	Additional Revenue of Rs.33 Bn
12	Revision of Taxes on Betting and Gaming	<ul style="list-style-type: none"> • Revision of Levy under the Finance Act focusing on • Casino Annual License Fee from Rs. 200 Mn to Rs. 400 Mn • Casino Turnover Levy from 10% to 15% • Annual License Fee of Rujino Sports to Rs. 1,000,000 • Introduction of Casino Entrance Fee of US \$ 50 to Per Person 	Additional Revenue of Rs. 2.5 Bn

No	New Revenue Proposals	Proposal Description	Proposed Revenue Impact
13	Revision of Economic Service Charge on Selected Imported Goods	Revision of Economic Service Charge on Selected Imported Goods	Additional Revenue of Rs. 15 .0 Bn
14	Revision of VAT on Disposal of Garments by BoI Entities	Revision of VAT on Disposal of Garments by BoI Approved Entities from Rs.75 per Piece to Rs. 100 per Piece	Additional Revenue of Rs. 0.5 Bn
Sub Total			Rs.72.0 Bn
	New Revenue Proposals	Existing Scenario	Proposed Scenario
15	Nation Building Tax	Introduction of NBT on Manufacturing of Cigarettes	Additional Revenue of Rs.3.5 Bn
16	Revision of Excise duty on selected goods	Revision of Excise duty on Sugar Contained Beverages, Refrigerator	Additional Revenue of Rs.3.0 Bn
	Sub Total		Rs.5.5 Bn
	Provision for Revenue Foregone by adjustments to Inland Revenue Act, Ports and Airports Development Levy and CESS		Revenue Foregone of (Rs. 6.0 Bn)
	Annual Total Revenue Estimate		Rs.150.0 Bn

Annex 4: Basis for Proposed Betting and Gaming Levy (2019) as provided by the MOF to the COPF on 11 March 2019 [Part 1]

Underline basis and Revenue Implications

c. On Betting and Gaming

Underline Basis	Expected Revenue Implication
1. Casino Annual License Fee No. of Existing Casino Centers	Additional Revenue Rs. 0.80 billion
2. Casino Turnover Levy (i). Revenue collected from turnover levy (ii). Expected nominal GDP growth projected for 2019	Additional Revenue Rs. 0.71 billion
3. Introduction of Casino Entrance Fee (i). Expected user head count per day (ii). Expected exchange rate	Additional Revenue Rs. 0.98 billion
4. Annual License Fee of Rudjino Expected sport places in the country.	Additional Revenue Rs. 0.01 billion
Total	Additional Revenue Rs. 2.50 billion

These betting and gaming levy is subject to implement/amend under relevant Act amendments and regulations.

Annex 5: Basis for Proposed Betting and Gaming Levy (2019) as provided by the MOF to the COPF on 11 March 2019 [Part 2]

Casino Annual License Fee	
No. of active casino centres	4
Existing annual license fee (Rs. Mn)	200
Proposed annual license fee (Rs. Mn)	400
Expected additional revenue (Rs. Mn)	800
Casino Turnover Levy	
Revenue collected from turnover levy in 2018 (Rs. Mn)	1,313
Existing turnover levy	10%
Proposed turnover levy	15%
Expected nominal GDP growth for 2019	8.7%
Expected additional revenue (Rs. Mn)	710
Introduction of Casino Entrance Fee	
No. of expected head count (per annual)	110,000
Proposed entrance fee (USD)	50
Exchange rate (Rs./USD)	178
Proposed entrance fee (Rs.)	8,900
Expected additional revenue (Rs. Mn)	980
Annual License Fee of Rudjino	
No. of expected sport places	10
Proposed annual license fee (Rs. Mn)	1
Expected additional revenue (Rs. Mn)	10
Total expected revenue (Rs. Mn)	2,500