



BUDGET SPEECH

2008

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(This is an English translation of the 2008 Budget presented by His Excellency the President)

Budget Speech - 2008

PART I

1. Introduction

1. Honourable Speaker, I am presenting the third Budget of our Government to this House with great respect. I am tabling the Fiscal Management Report - 2008, Revenue and Expenditure Estimates and publications containing information about the economy. I am also tabling a Progress Report of last year's Budget proposals, as a part of this Speech.
2. Honourable Speaker, as a result of severe terrorist threats that were prevailed for the last 25 years, the impact of neglected infrastructure development and failure to strengthen the domestic economy, we inherited an unstable economy, a backward agriculture sector, and a country in which development was privileged to a limited area. I presented 'Mahinda Chinthana: Vision for a New Sri Lanka - A Ten Year Horizon Development Framework 2006 - 2016', to this house along with my previous Budget proposing to strengthen the domestic economy, as an alternative to 'Regaining Sri Lanka' which undermined the role of the public sector and instead relied on privatization and globalization to solve all economic problems. As expected, the journey to build a New Sri Lanka was a challenging one. However, the revival of local entrepreneurs and products is encouraging.
3. Honourable Speaker, the ruthlessness and armed power of terrorists, the continuous brutal human massacres and colossal damages caused to public property, arms and powerful explosive detected by the security forces and the armories and many ships carrying weapons which were destroyed through joint operations launched by the security forces, demonstrate the magnitude of the threat faced by our country. Despite the armed strengths and the brutal actions of terror, we were able to rescue the entire Eastern Province, including areas that were in the control of terrorists' consequent to the so-called ceasefire agreement, through a successful humanitarian operation. We were also able to control the smuggling of arms into the country and restrain illegal fund raising activities undertaken by the LTTE, by strengthening the legal framework. We also managed to curb overseas operations of the LTTE with the assistance of many countries. With the attack launched on the Anuradhapura air force camp, the terrorist who are desperate and confined to their camps after having faced continuous defeats,

again demonstrated that they will never be ready to surrender arms and agree to a democratic political settlement. In this background, we have no alternative but to completely eradicate terrorism, if an environment in which a political solution upholding human rights in the interest of those who are still in the grips of terrorists is to be created.

4. In addition to successfully facing terrorist treats from the very beginning, we have also been able to surprise opponents who predicted that the economy has collapsed, by sustaining a high average economic growth rate of 7 percent over the last 2 years. This demonstrates that sustained resilience of our economy and it is in fact the highest growth rate recorded in our country in 30 years. Our 10 year Development Framework highlighted the importance of prioritizing infrastructure development, if we are to achieve an economic growth in excess of 8 per cent. In this backdrop, without permitting security conditions or financial constraints to be a barrier, we took up the challenge to build new power plants, highways, drinking water schemes, ports and air ports, irrigation schemes and to strengthen railway and transport facilities. Although some take pride by boasting that a peaceful environment for development was created during 2002 - 2004 regime, and that resources were raised by pruning public services and welfare expenditure and also by privatizing public enterprises, this House should not forget that not even small development activities such as construction of rural roads, have taken place during that period.
5. Honourable Speaker, despite economic and political constraints, we dedicated to ensure public welfare. We introduced the fertilizer subsidy for the benefit of small farmers, Gama Naguma - Jathika Saviya targeting Samurdhi beneficiaries and the poor and substantial salary and pension increases for public servants and pensioners. Renewed expectations have been created in agricultural sector by offering higher prices for crops such as paddy, onion and maize. 3,800 Tamil teachers were recruited to be deployed to schools in the estate sector. Enhanced welfare facilities were granted to displaced persons, on a priority basis.
6. We paid constant attention to the rising cost-of-living. The credit growth of the Government, public enterprises and the private sector has resulted in increasing the money supply by about 19 percent, and international price escalations of gas, fuel, milk powder and wheat flour have caused steep price increases of such items, while also increasing production and consumption expenditure. In this background financial policies were directed to promote domestic savings and curtail the demand

for credit while tax concessions were granted to stabilize prices of essential commodities such as rice, potatoes, onion and sugar to take control of the situation.

2. Economic Trends

7. Honourable Speaker, our country was confronted with formidable challenges during 2006 and 2007, as was not experienced in the recent past. The import cost of oil, wheat flour, milk powder and other food items has increased from US\$ 2,000 million in 2004 to US\$ 3,500 million. Security related expenditure to counter terrorism and protect public life and property has increased from Rs. 63 billion to Rs. 117 billion. This expenditure was directed to strengthen the infrastructure facilities of security forces and there is an increased understanding that strengthening national security is an essential investment for long term development. We must admire the progress achieved by our security forces while containing security expenditure below 3.5 percent of GDP, since many countries spend over 5 percent of GDP on their defense.
8. The tourism and fisheries industries which suffered a setback due to the Tsunami were further affected due to terrorist activities. Labour disputes and vagaries of weather caused the tea production to decline by about 10 percent. However, as of now the tourism and fisheries sectors as well as the tea industry are showing a positive growth. High prices for paddy, onion, potatoes, maize, dairy and livestock products and for exports such as tea, rubber, cinnamon and pepper, have contributed towards a growth in such sectors.
9. The increase in apparel exports from US\$ 2,800 million to US\$ 3,300 million demonstrates the capacity of the apparel industry to face global competition. Consequent to the incentives offered by the past two Budgets, exports of Gems and jewellery have increased by 20 percent, while home and office furniture production has also increased by 15 percent. The accelerated growth that can be seen in the printing and packaging, footwear and leather industries is commendable. There is also a notable growth of investments in these sectors.
10. Honourable Speaker, a unique trend that can be witnessed in the service sector expansion is that the users of telephones have exceeded 7 million, and the usage of motor vehicles, motor bicycles and three wheelers have increased up to 7 million. Investments taking place in the telecommunication sector have exceeded US\$ 300 million. Public and Private transportation is being rapidly expanded. Transport facilities have witnessed a substantial improvement with the introduction of 2,200 new

buses through the CTB and the new railway coaches. The annual growth recorded in the port, shipping and aviation sectors as well as in international and domestic trade, is in excess of 7 percent. Further, the growth in the banking and financial sectors, and education, health, tourism and other services provided by both private and public sectors have also increased in excess of 7 percent. The construction activities undertaken island wide in roads, power, water supply, irrigation, housing and urban development, have contributed to a growth in excess of 9 percent in the construction sector.

11. While the economic growth achieved in 2006 was 7.7 percent, we have managed to achieve a growth of 6.3 percent during the first 6 months of this year despite setbacks to the agricultural and tourism sectors. It is estimated that a 7.2 percent growth could be achieved in the second half of this year. As such, the per capita income of our country will be in the range of Rs. 165,000 (US\$ 1,500). The unemployment rate which was 8.3 percent in 2004 has declined to 6.2 percent. As of now, country's official foreign reserves have increase to US\$ 3,200 million.

3. Foreign Income and Expenditure

12. Honourable Speaker, it is important to note that our foreign income has increased by 10 - 12 percent. Agricultural exports have increased by 9 percent while industrial exports have also increased by 9 percent. Earning from tea exports could reach US\$ 1 billion mark, by exporting high value added tea and by targeting new markets. Opportunities have been created for the apparel sector to earn net foreign exchange in excess of US\$ 2.5 billion. Opportunities have also been crated to enhance export earnings from rubber and rubber based products, spices, fruit and vegetable, gem and jewellery, home and office furniture, footwear and leather products as well as to ensure accelerated income from port, shipping and aviation activities. The value of investment goods such as machinery, equipment, building material etc. has increased from US\$ 5,300 to around US\$ 7,500 million underscoring that there is sustained investments on economic development and exports.
13. Foreign investments are estimated to be around US\$ 650 million, whereas it was US\$ 250 million around 2 years ago. Remittance from those employed overseas has increased up to US\$ 2,700 million, this year. It is apparent that improving skills of those seeking overseas employment, and placing greater emphasis to supply professional services could earn foreign exchange in excess of US\$ 4 billion. The

Tourism industry could also be transformed into a business that generates income in excess of US\$ 1 billion.

14. Import cost during this year is likely to be around US\$ 12,000 million. The cost on oil, fertilizer, wheat flour, milk powder and sugar increasing from US\$ 1,988 million to US\$ 3,150 million, has heavily influenced this situation. Food and energy security could be ensured by switching on to alternative power generation avenues and through local food production, to reduce import costs. Since import substitution industries should also be promoted along with export promotion, many incentives have been extended for such industries to develop within a competitive environment.

4. Government Finance

Government Expenditure

15. Honourable Speaker, We all remember that our economy was managed for a considerable period of time on the basis that the public sector is not important. Many public services deteriorated considerably since vacancies were not filled. Salary anomalies caused complex problems among public servants. Government expenditure has also increased as a result of resolving such problems, priority given to expand education, health and welfare facilities, substantial capital expenditure being earmarked for infrastructure development and to strengthen national security. In this background, our policy is to mobilize public servants to improve the efficiency of public expenditure and to ensure maximization of benefits of such expenditure, at least cost and waste, as well as free from corruption. I feel that this is a more meaningful approach although it is a more difficult than what was planned under Regaining Sri Lanka Strategy, which aimed at pruning the public services.

Government Income

16. Honourable Speaker, we initiated action to rectify corrupt practices and shortcomings that prevailed in the revenue departments, fill vacancies, provide local and foreign training for the staff, and formulate relevant rules and legislation. We have undertaken the computerization process of the Inland Revenue Department involving a substantial investment. Government revenue has increased from Rs. 311 billion in 2004 to Rs. 600 billion in 2007, with a record improvement in Income Tax from Rs. 41 billion to Rs. 112 billion. Government revenue reached 17 percent of GDP which is the highest revenue recorded in 7 years.

Budget Deficit

17. In the two Budget Speeches I have already presented, I explained the need for a medium term framework to be able to bring down the Budget deficit and public debt in a systematic manner. This process has enabled us to reduce the Budget deficit which was 8.2 per cent of GDP in 2004 to 7.2 per cent this year. It is expected that public debt which was 105 percent of GDP in 2004 could be reduced to 90 percent this year. Continuous growths in government revenue, controlling public expenditure and maintaining the economic growth at a high rate of around 7 percent, have brought about these favourable trends. During the last two years, we have further strengthened our unblemished reputation relating to timely debt servicing.
18. Honourable Speaker, considering the limitations prevalent in the domestic market to mobilize fund required for development projects, we initiated action to raise US\$ 500 million from the international capital market. The international bond issue being oversubscribed by more than 3 fold, despite unnecessary obstructions, distorted publicity and intimidations, confirms the confidence placed by international capital market and investors on the future developments of our country. This has reduced domestic borrowing at an annual interest rate of around 17 per cent and has enabled to strengthen the exchange rate.

5. Economic Reforms

Public Sector

19. Parallel to the challenging task being carried out by the National Salaries Commission to rationalize public sector salaries and cadre, an Administration Reform Committee has also been setup to improve the public service delivery mechanism undertaken by various departments and agencies. Measures have been taken to provide a closer public service to the people through mobile secretariats being conducted by the Ministry of Public Administration and through the issuance of birth, marriage and death certificates electronically. Special programs have been introduced by the Ministry of Labour Relations to improve productivity.
20. Priority was given to implement new projects to revitalize Ceylon Transport Board and Railways services which were deteriorating, and Ceylon Electricity Board which was pushed towards financial crises due to the reliance placed on fuel based power plants. We also proceed with the expansion of the Colombo Port, transferred back to Ceylon Petroleum Corporation its filling stations which were earmarked to be

privatized and adjusted fuel prices to prevent the corporation from getting into a financial crisis. We recommenced operations of the Paddy Marketing Board and Fertilizer Corporation. We have given priority to strengthen the CWE and the cooperative system which is capable of being used to intervene in the supply of essential commodity items. In addition to strengthening State Banks and consolidating Regional Development Banks. Lankaputra Development Bank was setup to extend financial assistance to ordinary entrepreneurs who were affected by the privatization of development banks. Sri Lanka Savings Bank was setup mainly to extend relief to those affected by the closure of Pramuka Bank, National Insurance Trust Fund was setup to improve insurance related activities including reinsurance and Mihin Lanka - the new budget airline was setup to facilitate foreign travel of low income travelers. The process has commenced to reengineer the management of Sri Lankan Air Lines, in a manner favourable to the country.

21. Honourable Speaker, the Committee on Public Enterprises has reported to this House, several reasons which have led to the weakening of public enterprises. Action has been taken to strengthen the management of these enterprises by addressing shortcomings and legal action has been initiated against those who are alleged with corruption and fraud.

Legal Reforms

22. Recognizing the need to have a legal structure that facilitates country's development, a new Companies Act and several other financial related statutes were introduced. Action was also taken to build modern legal infrastructure with the construction of several Court Complexes island wide, provide computer facilities to court houses, launch a legal website *LawNet*, and provide training to the members of the judiciary and legal profession. The process of administration of justice was made more efficient with the setting up of Regional High Courts of Appeal and action is being taken to simplify business related systems and procedures.

Tax System

23. With wide reforms undertaken in the tax administration, revenue related legislation arising from Budget Proposals continued to be enacted in a timely manner, loopholes in the tax system were addressed, staff were given training opportunities, an Ombudsmen was appointed to resolve issues associated with the tax administration, a Code of Conduct and Ethics was introduced for tax officers and Customs officers, the audit mechanism was expanded and measures were taken to interlink Customs and

Inland Revenue Departments using technology. The number of tax files opened since 2006 is 79,786 and it is admirable to note that 3,941 of such files are those of public servants, of which 321 are those of officers of the Inland Revenue Department. The Court Case filed pertaining to the large scale VAT fraud that has taken place during the 2002- 2004 regime, is being heard by the High Court of Colombo and a separate investigation is being conducted by a 3 member Presidential Commission of Inquiry, chaired by a retired member of the judiciary.

Tourism

24. Honourable Speaker, significant reforms took place in the tourism sector with the introduction of a new statutory framework which enables to mobilize all stakeholders in the industry to develop the sector and thereby create an overall framework within which the tourism industry could be strengthened as a private - public partnership.

Territorial Sea Limit and Oil Exploration

25. Steps were taken to expand the limit pertaining to territorial waters of Sri Lanka which is currently 200 km from the coast to 800 km and associated work is expected to be completed next year. Arrangements are in place to select investors and commence preliminary work on oil exploration within next year.

Regional Trade Relations

26. Further progress was made in achieving mutual economic benefits from the Free Trade Agreements entered into with India and Pakistan and in the efforts to remove custom duties and other trade barriers in the last phase. Duty revision and under the Indo-Sri Lanka Free Trade Agreements will be implemented in 2008. As a result of discussions held during my state visit to the Peoples' Republic of China, availing preferential market access for Sri Lankan goods to China is being explored.

'Bim Saviya'

27. Honourable Speaker, a program by the name 'Bim Saviya' was initiated to clear impediments on land titling, in terms of which a 10 year action plan was drawn to enable the registration of around 10 million blocks of land in 332 divisional secretariat divisions and also to computerize related information. Funds have been allocated to enable the commencement of registration of 75,000 such blocks of land situated in 10 districts, during 2008.

Procurement Audits of Major Purchases

28. As proposed in the last Budget, to conduct special audits by the Auditor General's Department, risk based audits have been commenced on major procurements of food, medicine and fertilizer and public expenditure management is being strengthened by expanding such audits. Special attention is being given to introduce programs to minimize expenditure on telecommunication facilities, water, fuel and vehicle maintenance.

6. Expenditure Priorities of Budget 2008

Expenditure on Welfare and Subsidies

29. Honourable Speaker, we have increased provisions for various welfare expenditure and subsidies, targeting low income people. The sum allocated for medicines for Government Hospitals was increased from Rs. 11,000 million to Rs.13,000 million while the allocation for school uniforms, text books, scholarships, mid- day meal and school bus services was increased from Rs. 4,500 million to Rs. 6,000 million.
30. It is planned to make allocations to increase the subsidy for Samurdhi and kerosene from Rs. 9,600 million to Rs. 10,850 million and to provide nutritional food to expectant and lactating mothers from Rs. 1,775 to Rs. 1,875 million. it is also proposed to provide food and other welfare facilities to families displaced consequent to terrorist activities at a cost of Rs. 3,860 million. While the allocation for the fertilizer subsidy has been increased from Rs. 10,000 million to 15,000 million, it is expected to encourage the usage of organic fertilizer.

Development Expenditure

31. Honourable Speaker, under the theme '*Nilla Pirunu Ratak - Privithuru Parisarayak*', priority is given to preserve our environment. Special projects are to be implemented to ensure proper disposal of garbage. Allocations have been made to expeditiously conclude irrigation projects such as Moragahakanda, Deduru Oya, Menik Ganga, Rambukkan Oya, Yaan Oya, Uma Oya. In the allocation of funds to the health sector, priority is to improve the hospital system and to provide official quarters for doctors and in allocating funds for education , emphasis was to develop schools, improve teacher education, upgrade facilities in universities to increase the annual student intake to 20,000 and to develop high caliber professional education centers. It is proposed to spend around Rs. 106 billion as overall expenditure in the education

sector. Preserving water resources and forests as well as ensuring free healthcare and education, are the priorities in Mahinda Chintana ; Vision for a New Sri Lanka - 10 Year Horizon Development Framework. The fact that those who planned to privatize such assets are now making efforts to mobilize masses to protect such assets, proves that our policies are in the right direction.

32. Honourable Speaker, priority was given to develop the transport sector by constructing roads and main bridges, import railway engines and carriages, improve railway lines and the signal system as well as to provide additional busses. By allocating funds to develop towns such as Kottawa, Kaduwela, Kadawatha and Dambulla, construct the International Convention Center and administrative complex at Hambantota and Court complexes and District and Divisional Secretariats, and infrastructure for natural disasters management, it is aimed at developing an infrastructure framework capable of facilitating widespread national development.
33. Honourable Speaker, we took the brave initiative and made provisions to expeditiously construct the Upper Kotmale and Norochcholai power projects which suffered delays owing to political sensitivities and also to commence development work of Colombo and Hambantota Ports and Weerawila Airport while improving drinking water facilities in urban areas, developing rural irrigation schemes in smaller towns, and community water supply schemes in 1400 Grama Niladhari Divisions.

Grater attention is being given to uplift under developed areas with an allocation of Rs,15,000 million for Jathika Saviya - Gama Neguma program, Rs. 1,125 million for the decentralized Budget, Rs. 1,600 million to improve estate housing, Rs, 8,000 million for the development of the eastern province and funds to provide computer facilities to 600 main post offices.

Religious, Social and Cultural Activities

34. Honourable Speaker, a key feature in our economic development agenda under 'Mahinda Chinthana: Vision for a New Sri Lanka - A Ten Year Horizon Development Framework 2006 - 2016', is to develop a society with values to achieve sustainable development . Priority was given in this Budget to improve Sunday school education, broad base measures to eradicate drug abuse and to promote religious harmony. International Buddhist Centers and other places of religious worship will be

developed. Priority is given to improve Sigiriya National Museum, Kundasale Art Gallery and national drama and fine arts . Rs. 6,000 million has been allocated under respective ministries to develop sports and recreational facilities, youth affairs and skills development and to ensure the wellbeing of women and children.

Production Sector

35. Honorable Speaker, under the theme ‘Api Wawamu - Rata Nagamu’’, with priority attached to agriculture, is our 10 year vision to strengthen the domestic economy and the long-term strategy to reduce cost-of-living. As such, allocations for line ministries in the production sector such as agriculture, plantation, fishery, tourism, livestock and industries have been increased from Rs. 3,000 million to Rs. 7,000 million to promote domestic production and exports.

As envisaged in the ‘Mahinda Chinthana: Vision for a New Sri Lanka - A Ten Year Horizon Development Framework 2006 - 2016’, the national resurgence created through the recognition of local entrepreneurs and production, measures taken to develop infrastructure, and steps taken to promote local products in place of imports, we have embarked on a long journey towards building a strong national economy.

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Budget Proposals

PART II

Introduction

1. Honourable Speaker, this Budget is being presented amidst many challenges. The progress made in the national security front, and the national priority that has been accorded to protect our motherland should not be compromised to any challenge. Major infrastructure development projects which have been commenced in the country should be completed within the next two to three years. Priority should be given to extend relief to the low income groups to address their cost-of-living concerns. The reawakening of local entrepreneurs and improvements of local products needs to be further strengthened. This Budget is prepared with emphasis on these 4 priorities.

Fuel Prices

2. Honourable Speaker, the price of crude oil has now exceeded US\$ 95 per barrel. As such, the need to adjust fuel prices has surfaced again. However, since any revision of diesel and kerosene price would cause hardship to the public, I am considering to refrain from revising such prices at least as a temporary measure. In order to maintain diesel and kerosene prices, on which VAT is already exempted, at present levels through a cross subsidy mechanism, I propose that the 15 percent VAT on petrol be reduced to 5 per cent from January 2008. If this measure becomes insufficient in the context of changing international crude oil prices, I propose to remove the Excise Duty on Petrol as well. In order to recoup the revenue forgone, I propose to change taxes on liquor, motor vehicles and non essential imports as well as to change only the price of petrol, in an appropriate manner. If international price of crude oil remains continuously high, we have no choice but to face the hard reality. However, the price of kerosene will be maintained at the current level and provision has already been made to extend a Rs. 100/- kerosene subsidy per month to Samurdhi and other low income households who do not have electricity. It is proposed to give limited quantity of petrol at a discounted price to three wheelers with meters and also to introduce a loan scheme to enable the purchase of such meters

Strengthening the Co-operative System

3. Honourable Speaker, the co-operative system has rendered a unique service to our society, and also gave a protection to the lower income groups. The consequent economic wellbeing

that was available to low income groups, was eroded with the introduction of the open economy. 'The Mahinda Chinthana: Vision for a New Sri Lanka - A Ten Year Horizon Development Framework ' draws attention to the fact that the Co-operative system could make a major contribution towards reducing poverty. As such, it is proposed that over 300 Co-operative Societies which are scattered island wide will be linked with Lak Sathosa outlet. I propose to offer a grant up to a maximum of Rs. 1 million to all Co-operative Societies to modernize outlets to be able to distribute essential commodities to consumers. Further the Lak Sathosa outlets will be expanded up to 200 on an urgent basis. Budget Shops will be set-up in more populated areas for which it is proposed to allocate Rs. 650 million.

4. Honourable Speaker, in order to revive Co-operative Movement, I propose that to write-off all long term loans and interest due, and also to write-off all unpaid taxes of Co-operative Societies.
5. In order to promote the distribution of essential items at affordable prices, I propose to exempt Co-operative Societies from Income Tax, VAT, Debit Tax, including Withholding Tax on interest, for a period of 5 years. Since Co-operative Societies are also exempt from the Economic Service Charge and Provincial Council Turnover Tax, Co-operative Societies and associated Rural Banks will become tax free enterprises in terms of this Budget.

Essential Commodity Items at Concessionary Prices for Low Income Groups

6. Honorable Speaker, despite removing taxes on essential commodities since November 2006 at a cost of around Rs. 10 billion, the impact of such tax concessions did not seep down to consumers other than through Lak Sathosa outlets, Co-operative Societies and a limited number of other shops. As such, I propose to confine such tax concessions only to Lak Sathosa outlets, Co-operative Societies and Budget Shops and distribute a welfare pack containing essential commodities at tax free prices to low income groups through these outlets.

Rice Subsidy for the Plantation Sector and Neighbouring Communities

7. I propose to allocate Rs. 200 million to introduce a program to make available rice at a concessionary price to the communities in plantation and neighbouring areas, in order to encourage them towards rice and rice flour consumption. Priority will be given to setup Lak Sathosa and Co-operative Societies in these areas in order to ensure the success of this program.

State Trading Wholesale Establishment

8. It is proposed to set up a State Trading Wholesale Establishment, which will be a company owned by the Government, to streamline supplies in order to stabilize prices, to import essential commodities when required, and to maintain buffer stocks. I propose to avail a bank guarantee to the value of US\$ 10 million to facilitate related imports.

Concessions for the Fishery Sector

9. Honourable Speaker, in the context of continuous rising fuel prices, a system is in place through which Fisheries Corporation purchases 19 identified varieties of fish at guaranteed prices. I propose to provide financial assistance to facilitate this process. The VAT exemption granted to prawn farmers to improve the industry, is proposed to be implemented with retrospective effect from 2004. I propose to allocate an additional Rs. 100 million to complete housing construction activities undertaken under the 'Diyawara Gammmana' Program and also to expand this program island wide. I also propose to give priority to provide vessels for deep sea fishing through the program undertaken by the Fisheries Ministry.

Development of a domestic Shipping Industry

10. Honourable Speaker, as a small island nation, the international market for our products could be expanded by increasing the number of ships owned by local ship merchants. Further to the incentives offered in the last Budget, to expand this business, I propose that purchase of a ship to be registered under the Sri Lankan flag will be exempted from the Port and Airport Development Levy. It is also proposed that ships being registered under the Sri Lanka flag will not be considered as an import. It is further proposed that when such ships carry cargo, the freight charges to be used for the purpose of computing Customs Duty will be limited to a 15 percent of the value of cargo being carried.

Gem and Jewellery

11. Honourable Speaker, In order to further develop this industry, export income arising from gems imported and thereafter cut and polished, will be exempted from income tax. In order to encourage gem and jewellery exporters, 50 percent of foreign exchange earnings of such exporters maintained in bank accounts in Sri Lanka, will be permitted to be used for the importation of required raw material. I propose that the Central Bank of Sri Lanka will introduce a credit guarantee scheme to encourage banking institution to extend credit to those

industrialist engaged in the Gem industry. To popularize gem auctions I propose that only 2.5 percent income tax will be charged from the value realized from gem auctions conducted under the supervision of the State Gem Corporation, in place of prevailing income tax.

Domestic Textiles Industry

12. To encourage the domestic textile industry, a Cess of Rs. 50/ Kg. is proposed to be imposed on textiles imports for domestic consumption. I also propose to exempt importation of Yarn from VAT in order to encourage production of high quality fabrics.

Year Five Scholarships

13. Honourable Speaker, I propose to increase the number of year 5 scholarships from 10,000 to 15,000 to facilitate education of children of low income groups.

Graduates Employment

14. To give priority to resolve graduates unemployment, a system of filling vacancies in the Government Services by recruiting graduates was introduced last year. As such, around 3,000 vacancies were filled in the institutions such as the Department of Inland Revenue without any political affiliations and through a competitive examination. When presenting the 2007 Budget, I proposed to employ 10,000 graduates. As such, including the 2,088 graduates who were recruited under the 'Tharuna Aruna' Program, steps have already been taken to recruit 15,000 graduates in 2008 by following a recruitment procedure and through exams. I reiterate that steps will be taken to recruit graduates to public service based on annual vacancies without any political interference.

Foreign Employment

15. In the area of foreign employment, there is a major demand for professionals such as doctors, trained nurses and quantity surveyors. To meet the demand relating to nurses, the Ministry of Foreign Employment Promotion and Welfare and the Ministry of Healthcare & Nutrition have together introduced a programs through which 500 nurses are sent for foreign employment each year. Further, I propose to increase the intake of students to be trained as quantity surveyors from 50 to 150 and allocate Rs. 75 million to expand the required facilities at the University of Moratuwa in 2008. It is proposed to setup an Employment Placement Coordination Center in order to assist foreign employment of professionals.

Environment Conservation Levy

16. Honourable Speaker, the damage caused to the environment through air and water pollution and soil erosion is estimated to be in excess of 2 percent of the GDP. But the resources that we earmark for environment conservation is grossly inadequate. I, therefore propose to introduce an Environment Conservation Levy Act ensuring environment conservation. Individuals, businesses or items considered as harmful to the environment will be subject to this levy. As such, a permanent household, with a vehicle and a telephone and electricity connections will be liable to this environment levy of Rs. 20 per month through the Act. The Central Environmental Authority will be empowered to register relevant Chief Occupant to enable the process of recovering of this levy. Further, provision will be made in the Act to enable the gazetting of any items or businesses considered as harmful to the environment as well as the relevant tax rates pertaining to which the gazette will be submitted to the Parliament. It is estimated to raise Rs.1,000 million from this Environment Conservation Levy that will be introduced from 2008. I also propose to allocate Rs. 150 million for Piyakaru Purawara and Haritha Gammana Environmental Programs. It is proposed to reduce around 3 million tones of Carbon emission per year in Sri Lanka. The associated foreign exchange earnings in line with the relevant international conventions are estimated to be around Rs. 3,000 million. I propose to setup a Sri Lanka Carbon Fund with the participation of Banks and private investors as shareholders to facilitate this process.

Income Tax

17. I do not see a rationale, to extend special concessions to foreign professionals working in Sri Lanka, since Sri Lankan professionals with domain expertise are sufficiently available and also in view of double tax agreements which are in place with many countries. As such, I propose that tax computation on income with regard to both foreign and local persons employed in Sri Lanka would be done in an equal basis.
18. I also propose that any loss from a business of leasing that is permitted to be set-off against income, to be confined to the income arising from leasing business only.

Rs. 300 million is expected to be raised from these measures.

Simplification of the Tax System

19. Honourable speaker, the simplification of certain taxes is helpful for the tax administration as well as tax payers. As such I propose to exempt those paying Economic Service Charge from having to pay Withholding Tax and Income Tax. Aiming greater convenience with regard to Stamp Duty payable on Leases or Mortgages, I propose that either stamps representing the relevant amount could either be affixed or a receipt proving the payment of such amount to a Bank could be affixed, to a lease or a mortgage instrument and legal safeguards will be introduced in this regard. I propose to exempt all key development projects from VAT and the service providers will be entitled to claim their input. I also propose to simplify the prevailing system relating to taxing salaries and allowances of public servants.

Collection of Tax Arrears

20. Honourable Speaker, with the repeal of the tax amnesty legislation, many taxes to which the amnesty applied are now recoverable. Although the amount as tax arrears reflected in the books of the Inland Revenue Department is substantial, we have confronted difficulties in ascertaining the amounts that is in fact recoverable. I propose to introduce a Special Act in this regard. This proposed Act will have provision pertaining to resolving related issues and will enable the recovery of such taxes in an expeditious manner. It is proposed that this Act will make specific provision to appoint an Independent Committee consisting of 3 members, to be chaired by a Retired member of the Judiciary and provide a mechanism through which tax arrears upto 31st March 2007, of state institutions or those who are legally declared bankrupt, could be written off as may be approved by the Committee. It is also proposed to refer to a special judicial process to recover arrears relating to Turnover Tax, National Security Levy and the Goods and Services Tax. I also propose, Inland Revenue Act and VAT Act to be amended to require the Commissioner General of Inland Revenue to ensure, that commencing from 1st April 2007, tax arrears in any tax year cannot exceed 3 percent of the tax revenue of the previous tax year. It is expected to set up a special unit directly under a Deputy Commissioner General of Inland Revenue which will be in charge of collecting tax arrears. It is expected that the Inland Revenue Department under the supervision of the above mentioned Committee will be able to collect at least Rs. 5,000 million in 2008 through this measure.

Customs Levy

21. I propose to raise Rs. 2,000 million by reducing tax evasions taking place at the Port and Airport and by modernizing the administration of Sri Lanka Customs by auctioning the vehicles and article confiscated by Customs,.

Economic Service Charge

22. Honourable Speaker, I propose to increase the Economic Service Charge on the sale of Liquor and motor vehicles from 0.5 per cent to 1 per cent. I also propose that the Economic Service Charge payable by a business earning export income will not exceed 0.25 percent. It is expected to raise Rs. 400 million from this measure.

Other Revenue Proposals

23. I propose to raise an additional Rs. 9,400 million by amending Excise Duty on motor vehicles and non essential imports, by increasing import and export license fees, by increasing the surcharge on Import Duty to 15 percent and by revising the cess on imports which have local substitutions. I expect to increase revenue by a further Rs. 4,700 million by increasing provincial infrastructure Development Levy with is based on motor vehicles, by increasing the telecommunication license fees and by extending the 10 percent tax levied on mobiles to wireless phones. I propose to increase the fee for the renewal of a Passport and raise an additional Rs. 250 million.

Tax Holidays

24. Honourable Speaker, Continuous provision of tax holidays to promote investment has caused distortion in our Tax system. Time has come to eliminate these distortions and get everybody into the tax system. It appears more appropriate that tax holidays already granted will not be extended, and to give only three year tax holidays other than for flagship investments, or to those engaged in development activities in lagging regions or building housing facilities for lower income groups. I consider this is a practical begining to ensure that the high tax rates that are prevailing to be reduced over the next 5 years to ensure that tax rates could be aligned with those prevailing in other countries in the region. As such, I propose that grant of tax holidays from 2008 will be restricted as aforesaid and that, such companies will be permitted to graduate through a lower tax rate during the 3 years next ensuing. I expect an additional Rs. 500 million could be raised in 2008 by broadening the tax base. Further, I propose that the approval of the Ministry of Finance will be mandatory prior to availing a tax holiday under any statute and to make for which required statutory amendments put in place.

I also propose to require that all tax holiday granted should be annually Gazetted by the Ministry of Finance and Planning at the end of the year.

Nagenahira Udanaya

25. Honourable Speaker, to reap maximum benefits to the people in the eastern province from the humanitarian operations which were carried out in the region, the Government accords high priority for development activities in that region. Special steps have been taken to mobilize foreign aid for infrastructure development and housing construction. As a measure to encourage private investments in this region, I propose to grant a 5 year tax holiday for any investment over Rs. 50 million and generates employment for over 50 people. I propose that interest income on loans granted for such investments by the banks be exempted from income tax and equipment and machinery imported for such projects will be exempted from Custom Duties and VAT.

Development of Lagging Regions.

26. I propose to extend the date to complete investment to qualify for a tax holiday for investments in districts other than Colombo and Gampaha, till March 2009. Further, I propose to treat expenditure incurred in the relocation of businesses outside Colombo and Gampaha Districts as an unlimited qualifying payment for two years. However, all income from such investments after being relocated will be subject to the normal tax regime

Incentives for Foreign Earnings

27. In order to encourage foreign earnings of Sri Lankan individuals and enterprises, income such as salaries, fees and dividend will be exempted from income tax provided such income is remitted to Sri Lanka through the Sri Lankan banking system. To enhance foreign exchange earnings, I propose to permit local enterprises to borrow from the global capital markets and, high interest rates charged by local banks could thereby be reduced. Further in order to promote Sri Lankan exports, I propose that Ports Authority charges for garments and other exports to be made similar to the levies and charges structure prevailing in relation to agricultural products.

Welfare for the Apparel Sector Employees

28. I propose to allocate funds from the income of the Board of Investment to provide greater welfare facilities to employees in export processing zones through the provision of better bus

services, mobile police services, medical facilities and by restoring street lighting and maintenance of roads in the Katunayake, Seeduwa and Biyagama local authority areas.

Free Trade Zone for Building Material

29. I propose to setup a Free Trade Zone for Building Material in the Kellani Valley, to be able to meet the demand of building material for the construction sector at reasonable prices in a competitive environment and also aimed at easing the traffic congestion in Colombo metropolitan areas. I propose to avail Rs. 250 million under the vote of the Ministry of Trade to build the required infrastructure.

Housing Development

30. I propose to allocate Rs. 100 million to develop housing facilities of shanty dwellers in ten selected districts with the help of community organizations in such areas and the beneficiaries. I also propose to extend tax concessions to any person making an investment in such projects.

Development of Small and Medium Scale Industries

31. Honourable Minister, I propose to extend the tax free period that was availed to those importing high tech machinery and equipment to enhance the production capacity of local enterprises, till December 2009. I propose to grant concessionary loans subject to a maximum of Rs. 15 million, at an interest rate of 10 percent, for garment factories situated outside the Colombo district to enable the modernization. I propose to extend financial assistance at concessionary rates from the National Co-operative Fund, pertaining to project proposals submitted by Co-operative Societies for production purposes in diary, fishery, livestock, textile and small and medium industries.

Local Milk Production

32. Honorable Speaker, In order to encourage local milk production, I propose to increase the guaranteed price being paid to milk producers of milk, to Rs. 30 - 40 range per Ltr. In addition, credit facilities will be provided at concessionary rates for the importation of milking cows, development of animal husbandry and to set up small and medium milk processing centres. I also propose to exempt milk and dairy products from VAT. I have allocated funds to grant concessionary loans to develop over 50,000 livestock farms in Northern, North Central, Southern and Uva Provinces. It is proposed to strengthen the legal framework to prevent the slaughter of milking cows and to increase the associated fine from

Rs. 250 to Rs. 50,000. It is also proposed to allocate Rs. 100 million to set up cold storage facilities and milk collection centres at provincial level.

Api Wawemu - Rata Nagamu

33. Our country spends around Rs. 30 billion for the importation of milk powder, sugar, vegetables, fruits and wheat flour. As incentive to promote local production of these on a priority basis, I propose to ensure high prices for such local products, by providing safeguards from imports, availing seed and plant material and extending technical support. Provisions have been made to write-off part of the debt of small and medium paddy millers to revive their business. Steps have also been taken to grant loans at 8 percent interest, under the 'Krusha Navodaya' Program. I propose to restrict the income tax on interest of the Agricultural Credit Guarantee Fund of Central Bank of Sri Lanka to 10 per cent, to further promote and expand facilities extended under that scheme. I also propose to implement an incentive scheme for agricultural extension and research officers who are working in the field. I propose to allocate a further Rs. 300 million to strengthen the 'Api Wawemu - Rata Nagamu' Program.
34. I propose to remove VAT on local sugar and rice based products. I also propose to strengthen the legal framework to prevent coconut lands in excess of 5 acres from being blocked out and sold.

Fertilizer Subsidy

35. Honourable Speaker, it is proposed to avail all varieties of fertilizer at Rs. 350 per bag for paddy cultivation, and to avail Urea fertilizer at a concessionary price of Rs. 1,200 per bag for land owners owning less than 5 acres and Rs. 15,000 million is allocated to continue with this subsidy. Since chemical fertilizer is harmful to the environment and health, it is proposed to encourage the use of organic fertilizer and Rs. 500 million has been allocated to promote organic fertilizer production. It is proposed to popularize in a structured manner, the use of appropriate carbonic/chemical mixed fertilizer over the long term, in place of chemical fertilizer which is now being used.

National Priority to Address Nutritional Needs

36. Honourable Speaker, although we have implemented many nutritional programs such as mid day meals to school children and nutritional food for expectant and lactating mothers, it is reported that 33 percent of children are underweight, in addition to many facets of nutritional

deficiencies in our country. This trend is attributable to there being lack of awareness on nutritional requirements and no attention being paid to the nutritional values of food intakes. Therefore, in addition to Rs. 1,650 million earmarked for school mid-day meal in 2008 it is proposed to implement an integrated program under the Ministry of Healthcare and Nutrition using the allocations made to several ministries totaling to Rs. 2,865 million to promote nutritional standard of pregnant and lactating mothers as well as infants with the emphasis on those in the eastern, estate areas as well as other difficult areas. In addition to the free nutritional food presently provided to pregnant and lactating mothers, a further sum of Rs. 250 million has been allocated to extend facilities required to promote breast feeding and to provide infant milk powder at concessionary prices through child and maternity clinics

37. I propose to increase the Social Responsibility Levy which is 1 percent to 1.5 per cent in support of further strengthening the National Action Plan for children which is being implemented as an integrated effort involving many facets. I expect to raise an additional Rs. 1,000 million from this measure

Intellectual Property Sales Development Center

38. I propose to allocate Rs. 50 million to Intellectual Property Fund to setup a an Intellectual Property Sales Development Center, to enable local intellectuals, artists and inventors to introduce their creations engage in sales promotions as well as to hold discussions and seminars.

Local Film and Tele-Drama Industry

39. Honourable Speaker, Many steps were taken through the last Budget to strengthen the local film and tele-drama industry. In order to recognize our local film industry and protect our cultural values, taxes were introduced on the importation of foreign films, tele-dramas and advertisements. To ensure that this revival process is continued, I propose to set up a National Heritage Center using such funds with the involvement of Tourism and Cultural Ministries with modern Training Centers and Studios to promote talents of local film and tele-drama artists. I also propose to extend tax concessions on the importation of essential equipment required for the production of films and tele-dramas. Further, I propose to increase tax relief granted on investments for production of films from Rs. 25 million to Rs. 35 million. I also propose to grant tax concessions upto Rs. 25 million for the construction of high-tech modern theaters.

Incentives for Public Servants

40. The Public Service which was run down, got a new revival in terms of Mahinda Chinthana; Ten year Horizon Development Framework. Rs. 1,000 per month was paid as a cost-of-living allowance. Even under very difficult circumstances, we ensured that this allowance was increased by Rs. 375/- once in every 6 months and the total allowances as of now is Rs. 2,125 per month. Even amidst all challenges, I propose to continue to pay the cost of living allowance to public servants. Therefore all public servants will get a cost-of-living allowance of Rs. 2,500 from January 2008 and to Rs.2,875 from July 2008 in addition to their monthly salary. I also propose to increase the Cost-of-Living allowance to pensioners. I propose to allocate the required funds from the Treasury Miscellaneous Vote.
41. Honourable Speaker, while giving priority to those in the junior grades and fresh applicants, I propose to allocate an additional amount of Rs. 1,500 million to continue with the distress loan scheme for the benefit of a large segment those in the public sector and to make the necessary allocation from the Treasury Miscellaneous Vote.

Api Wenuven Api Fund

42. We have implemented a program to provide members of the armed forces who are engaged in a national task and their family members, housing, education, health and recreation facilities. We have already commenced the construction of a housing complex with all facilities at Ipalogama with about 1,500 units and I propose to expand such projects in to other areas as well.
43. We have secured the participation of the private sector in this process, who have got investment opportunities in the construction of schools, hospitals, stadiums and market places. I propose to set up a fund by the name of 'Api Venuven Api' to ensure the success of this program. I propose that all contributions to this fund as well as any income of the fund, will be tax free. I invite Sri Lankans living overseas also to contribute to this fund. I propose to allocate Rs. 750 million to develop necessary infrastructure for these housing complexes.

Non-resident Homeland Development Bonds

44. I propose to introduce Non-resident Homeland Development Bonds through banking institutions in Sri Lanka, the maturity periods of which would be 1 to 5 years to encourage Sri

Lankan non-residents, to contribute towards developing their homeland. I propose that the 100 percent property tax applicable to non-residents in the purchase of land will not apply to those who invest in these bonds and that interest arising from such bonds will also be exempt from income tax.

Drug Prevention Program

45. 'Mathata Thitha' - Drug Prevention program has made considerable progress with the participation of several ministries. Sri Lanka Police and the Department of Excise have taken broad steps to combat drug abuse. We have sharply increased taxes on alcohol and cigarettes to discourage consumption. The revision of Excise and Cigarettes tax after the presentation of the Appropriation Bill is expected to increase a bottle of liquor by Rs.35/= and a cigarette by Rs.2/=. This is expected to generate additional revenue of Rs. 7,700 million. I also propose to increase the stamp duty on the renewal of liquor license from Rs. 1,000 to Rs. 10,000.

Project Management Department

46. There is an urgent necessity to ensure direct supervision in the preparation of agreements and in the implementation of such contractual arrangements, which are undertaken by various Ministries and Departments. Therefore, I propose to setup a new department in the Ministry of Finance and Planning consisting of multidisciplinary experts in the field of law, business, finance, engineering and project planning and to undertake overall coordination and supervision of all project management staff. I propose an allocation of Rs. 50 million for the setting up of this Department.

Coordination between Provincial Council and Line Ministries

47. Development work carried out by various line ministries and provincial councils, at provincial level require to be co-ordinated in order to enhance productivity and ensure that people in areas in which such work is carried out, could enjoy more meaningful development. It is proposed to implement a review mechanism targeting education, health, roads, agricultural and irrigation sector activities, with the corporation of relevant ministries and provincial agencies.
48. Honourable Speaker, although the bulk of the road network is coming under the perview of the provincial councils, the income avenue of provincial councils are not sufficient to ensure effective maintenance of such roads. The Government gives around Rs. 100 billion annual grant to Provincials Councils such funds are not sufficient to maintain and improve

infrastructure at provincial level. As such I propose work out with the provincial setup to introduce a road user fee on vehicles to maintain the provincial road network.

Government Expenditure Management

49. To ensure the prudent control and management of Government expenditure, a saving of 1.5 percent in recurrent expenditure and a saving of 7 percent in capital expenditure has been assumed for final budget estimates.

Concluding Remarks

Honourable Speaker, a revenue surplus of Rs. 38 billion is expected from the 2008 Budget. Accordingly, we attempted to change the 30 year long practice of financing a part of day-to-day expenditure from borrowings. It is a pleasure to note that the overall Budget deficit of Rs. 297 billion which is 7 percent of GDP in 2008, is entirely on account of capital expenditure. This demonstrates that we mobilized borrowings only for development activities which in turn generate income to service debt repayments.

The protest campaign that we witnessed in the wake of the recent International Bond Issues was not a reflection against the borrowings itself, but more an irruption of uneasy feeling stemming from the fears that such credit will strengthen the Government by being able to engage in rapid economic development activities and would also result in strengthening the exchange rate and the interest rate. Irrespective of who undertakes the task, there is no question that large sums of funds are required for development activities. Past 30 year experience has proved that such resources cannot be mobilized through the sale of national resources and privatization. We have to increase revenue and get foreign exchange. As such, rather than debating that borrowing is wrong, it is desirable to question as for what purpose the borrowings obtained. We proceeded to mobilized this large sum of funds through the Bond issue only after making a concerted effort to raise Government revenue and also to raise funds from confessional sources. We took this measure in order to be able to complete the infrastructure projects already undertaken well on time, to find required foreign exchange for such development projects and also having considered the fact that domestic borrowing would result in high interest rates and thereby weaken the performance of the private sector. As already explained, these funds will be used to complete development work already undertaken and will not be used to provide for the flour subsidy or for day-to-day consumption expenditure, as was done in the past.

Honourable Speaker, as a developing country which has faced bitter experiences of brutal terrorism, we cannot underestimate the imminent impact on the stability of our country if we relax road barriers, exposing our intelligence services to be vulnerable, neglect the needs of our security forces or ignore their advise. We have witnessed that the cost of ill effects and destructions laxities outweigh the cost of inconveniences and sacrifices.

Honourable Speaker, we need to forget personal animosities arising from jealousies and the associated political rivalries when it comes to national security and economic development. It is not possible to rectify the mistakes of 30 year and to eliminate associated destructions and enter a path that would help to address the needs of the nation within a short span of time or by taking a divided approach and by defaming each other. We believe that the influence of The Mahinda Chinthana: Vision for a New Sri Lanka - A Ten Year Horizon Development Framework has assisted in reducing ideological difference, since some of our leaders who demanded a federal solutions for years have now given up such solutions, those who mapped the process of privatization of health, education and national resources are now compelled to demand the protection of such sectors, local entrepreneurs and products are in the forefront, in place the system that prevailed which attached greater prominence only to foreign investors.

Time has come for us to further narrow down all ideological differences and work towards finding a political solution to our national problems, based on democracy and humanitarian considerations. We must engage in a political process especially to find solutions to the problems faced by the Tamil and Muslim communities who live in the North as well as in the East, parallel to the progress made by our security forces who are engaged in protecting our motherland and liberating Tamils, Muslims and Sinhalese, from the grips of terror. I wish to emphasize that the fight against terrorism is not a fight against the Tamil people. It is our duty and responsibility to protect and preserve democratic rights of Tamils, Muslims and Sinhalese in all parts of the island. I therefore invite all of you in the opposition to join hands with the Government to move toward with common agenda in the interest of our motherland.

Honourable Speaker, although the prices of certain essential commodities are likely to remain high due to soaring international prices, it is indeed a blessing in disguise to promote local substitutes. Although we are likely to be face many challenges in carrying out national security operations and in implementing development projects, we should treat them as tasks essential in the interest of our mother land and our future generation. I invite everybody to join hands to generate an economic growth in excess of 7.5 percent during 2008, by expediting

all key development projects, by to create a prosperous country in line with Api Vavamun - Rata Nagamu, the national food production drive taking advantage of favorable weather conditions, increasing local investment and production in the backdrop of the enthusiasm created in the private sector, and the notable progress made in the national security- front .

Honourable Speaker, we do not believe that high economic growth alone is sufficient for a meaningful development for our people and the country. The development process should necessarily include an infrastructure network that provides opportunities for people living in remote areas to benefit from the economic growth, a process that provides equal opportunities for all communities while preserving social and cultural values and creates aspirations of becoming a nation that moves forward with emphasis on innovations. The Mahinda Chinthana: Vision for a New Sri Lanka - A Ten Year Horizon Development Framework has created a new approach for this meaningful development. To be able to achieve this , we should balance our failures and successes and dedicate ourselves to move forwards as a strong nation.

Honourable Ministers, Secretaries to the Ministries, Heads of Institutions and all public servants, I request you to cooperate and assist to develop a dedicated public service by marking attendance with the use of an electronic finger printing system, render your services based on a Code of Conduct and Ethics and free from corruption and also make a concerted effort to eradicate bribery and corruption. I invite all public service to mobilize the working class, the entrepreneurs and the tax payers to work towards country's development.

Thank you

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Progress of the Implementation of Budget Proposals – 2007

Proposal	Implementing Agency	Progress
Proposals for Rationalization of Government Revenue & Development focused Tax Incentives		

VAT

- | | | |
|--|--------------------------------|--|
| <ul style="list-style-type: none"> • Rationalizing Revenue: Limitation of input credit to actual amount or 85% of the output whichever is lower, disallowing the 50% input credit allowed for motor vehicles used for traveling, withholding 1/3 of VAT payable to contractors and other service providers by govt. organizations, introduction of a 6 month- time limit on adjustments of input tax on Tax Debit Notes issued from the date of issue of original tax invoice, provisions to allow every person who is on the broader of VAT threshold of Rs 1.8 mn to pay 5% non- refundable VAT and increase of markup from 7% to 10% • Exemptions: Supply of locally manufactured handloom textile, import of any bus use for passenger transport and fuel oil, , supply of electricity, machinery & equipment imported by CEB, distribution or exhibition of any film, supply of laboratory facilities for film production, import of any film which is produced in Sri Lanka and sent abroad for further processing or printing, identified machinery which are not manufactured locally to modernize rice mills, machinery for modernization of factories, supply of prawn, import of cattle, buffalos etc, all materials imported for processing & manufacturing leather products and chartering vessels. • Reductions & Concessions: Removal of input credit restriction of 15% for 20% paid on raw materials as inputs used for exports, reduction of commission paid when computing value of supplies of lotteries, removal of disallowing input credit relevant to a subsequently exempted supply which was taxable, reduction of rate to 5% on import of machineries used for manufacture of ticket issuing machines, high tech medical equipment & machineries and jewellery industry, and grant a deferment for purchase of materials locally for BOI projects | Ministry of Finance & Planning | Implemented by the VAT (amendment) Act No. 14 of 2007 & 49 of 2006 |
|--|--------------------------------|--|

Proposal	Implementing Agency	Progress
<p>Income Tax</p> <ul style="list-style-type: none"> • Rationalizing Revenue: Treat life and general insurance businesses separately, tax the difference between actual dividend paid and 1/3 of profit at 15%, bring subsidiary or associate company of a holding company into the normal tax rate, restriction on loan loss provision to 1% or actual amount whichever is lower, and introduction of a requirement of furnishing special audit report for every business other than banks • Exemptions: Income from sale of shares of unit trust, any benefit (capital gain or employment benefit) from participation in employee share option plan, profit of any individual engaged in construction work abroad for payment of foreign currency, and remuneration of Sri Lankan seafarers • Reductions & Concessions: Introduction of Rs. 600,000 tax free threshold for partnerships & application of 10% rate on the excess of Rs 600,000, if the tax in default is paid within 3 years, a waiver for all penalties accrued on any tax in default for the past five years, revision of tax slabs & rates applicable to withholding tax on interest & terminal benefits, allowing expenditure incurred in acquiring international accreditations for professionals as a deductible expenditure, increase the depreciation allowance on machinery from 12.5% to 25% & reduction of withholding tax from 5% to 1% for construction industry, granting tax holiday for cinema theaters equipped with new technology, increasing the qualifying payment from Rs. 10 Mn to Rs 25 Mn for cinema industry, expansion of scope of entrepot trade to any article in place of few selected articles, increase of depreciation allowance to 1/3 on ships and granting a 3 year tax holiday for reopening of closed factories. 	<p>Ministry of Finance & Planning</p>	<p>Implemented by the Inland Revenue (amendment) Act No. 10 of 2007</p>
<p>ESC</p> <ul style="list-style-type: none"> • Rationalizing Revenue: Reduction of threshold from Rs 10 mn to Rs 7.5 mn per quarter and restriction of application of 3 year- non chargeability to manufacturing industries • Exemption: Off shore activities of Entrepot trade, and for reopened factories same period of Income tax holiday • Reductions & Concessions: Increase setoff duration from 3 years to 5 years, restriction of the time of making an assessment to 18 months, and reduction of rate from .5% to .25% for wholesale & retail other than vehicle & liquor, from 0.1% to 	<p>Ministry of Finance & Planning</p>	<p>Implemented by the ESC (Amendment) Act No. 15 of 2007</p>

Proposal	Implementing Agency	Progress
<p>.05% for distributors as defined in ESC Act, from 0.25% of total value to 1% of value addition for cutting & polishing of gem & diamond for export, from 1% to 0.5% of for business liable Part A & B 1 of the second schedule of IR Act, to .25% for conversion of tea, rubber, coconut, to 1% of value addition for apparel where turnover is not FOB, from .5% to .1% for entrepot trade on FOB, from 1% or .5 % to .25% for tea, sheet rubber, desiccated coconuts, coconut oil, coconut fiber, copra & charcoal, & from 1% to .25% on the value addition for export of gem, diamond & jewellery</p>		
<p>Import Duty</p> <ul style="list-style-type: none"> • Rationalizing Revenue: Continuation of 10% surcharge • Exemption: Items imported for film industry, films or teledrama sent abroad for further processing, identified machinery which are not manufactured locally to modernize rice mills, machinery for modernization of factories, equipment used in prawn farming, importation of cattle, buffalos etc, all materials imported for processing & manufacturing leather products, and importation of ships registered under Sri Lanka flag • Reductions & Concessions: Granting tax rebate on high value agriculture & processing machinery & equipment and relaxation of licensing requirement for importation of certain construction machinery over 7 years 	<p>Ministry of Finance & Planning</p>	<p>Implemented by issuing gazettes No. 1497/7 dated 14. 05. 2007 & 1497/5 of 14. 07. 2007</p>
<p>Excise Duty</p> <ul style="list-style-type: none"> • Rationalizing Revenue: Increase of markup 5% - 10%, and imposition of 5% on paints & Rs 6/- on carbonated drinks 	<p>Ministry of Finance & Planning</p>	<p>Implemented by issuing a Gazette No. 1471/ 23 of 16. 11. 2006.</p>
<p>PAL</p> <ul style="list-style-type: none"> • Rationalizing Revenue: Increase the rate from 2.5% to 3% • Exemptions: gem, diamond & gold and films or teledrama sent abroad for further processing • Reductions & Concessions: Reduction of rate to 2% for selected plant, machinery for high value adding industries, pharmaceuticals, and machines used for apparel industry 	<p>Ministry of Finance & Planning</p>	<p>Implemented by the Finance (amendment) Act No. 48 of 2006, Gazette No. 1478/3 of 01. 01. 2007 & Gazette No. 1497/3 of 14. 05. 2007</p>
<p>Stamp Duty</p> <ul style="list-style-type: none"> • Exemption: ship mortgages and transaction of units of unit trust 	<p>Ministry of Finance & Planning</p>	<p>Implemented by issuing a Gazette No. 1478/ 7 of 01. 01. 2007.</p>

Proposal	Implementing Agency	Progress
Regional Infra. Dev. Levy <ul style="list-style-type: none"> Imposition: A Levy of 2.5% on import of excisable (excluding three wheelers) vehicles 	Ministry of Finance & Planning	Implemented by the RIDL Act No. 51 of 2006
Cess <ul style="list-style-type: none"> Rationalizing Revenue: Imposition of markup of 10% 	Ministry of Finance & Planning	Implemented by issuing a Gazette No. 1471/ 24 of 16. 11. 2006.
Non Tax <ul style="list-style-type: none"> Duel Citizenship fee: Reduction from an average Rs. 400 000 to Rs. 200, 000 per family Passport fee: Increase one day passport fee from Rs 5,000 to Rs. 7, 500 & reduction of normal passport fee to Rs 2,500 from Rs. 3, 500 Visa fee: Introduction of a new visa fee of us \$ 10 per tourist Provincial Councils Revenue: A close coordination among PCs, Treasury and Finance Commission to raise provincial councils' revenue 	Dept. of Immigration & Emigration Dept. of Immigration & Emigration Dept. of Immigration & Emigration Ministry of Finance, Finance Commission, Provincial Councils	Implemented. Implemented. Deferred due to setback in tourism industry. Steps have been taken to increase the PC revenue up to 1% of GDP by 2008

Proposals for Expenditure Rationalization & Development focused Financial Incentives

Rationalizing Government Expenditure:

<ul style="list-style-type: none"> 2% cut on provisions for telephone, water, fuel, repair & maintenance, furniture & equipment 	Dept. of National Budget	Implemented by the Budget Circular No. 133 dated 29. 12. 2006.
<ul style="list-style-type: none"> 5% cut of the provisions made for under performing public enterprises 	Dept. of National Budget	Implemented by the Budget Circular No. 133 dated 29. 12. 2006.
<ul style="list-style-type: none"> Set up a special audit unit to audit the procurements relating to food, pharmaceuticals & fertilizer 	Dept. of Auditor General	A special audit unit has been set up under the Auditor General's Department to undertake risk based audits.
<ul style="list-style-type: none"> Release of funds for new projects only after unfinished works are finished 	Dept. of National Budget	Implemented by the Budget Circular No. 133 dated 29. 12. 2006.
<ul style="list-style-type: none"> Set up people vigilance committee to monitor progress of projects 	My. of Nation Building	4,274 People's Vigilance Committees (Jana Saba) have been set up and have commenced their activities.
<ul style="list-style-type: none"> Use 50% of decentralized budget on roads 	My. of Nation Building	District Secretaries are instructed to select projects and give priority to road construction.
<ul style="list-style-type: none"> Savings from under expenditure and rollover of unspent provisions to the next year 	Dept. of National Budget	Implemented by the Budget Circular No.133 dated 29.12.2006 to ensure constant review and rolling plan.
<ul style="list-style-type: none"> Elimination of duplication in capital projects and re-channeling funds to roads, housing, irrigation, electricity and livelihood 	Dept. of National Budget	Implemented by the Budget Circular No.133 dated 29.12.2006.

Proposal	Implementing Agency	Progress
<i>Housing:</i>		
<ul style="list-style-type: none"> • Write off loans about 5,000 low income householders 	National Housing Development Authority	Deserving beneficiaries are being selected for the concession.
<ul style="list-style-type: none"> • Increase number of houses for shanty dwellers 	Ministry of Urban Development	50 houses at Wadullawatta, Orugodawatta & 60 houses at 48 Watta, Borella have been completed. 60 houses in 48 watta are being completed.
<ul style="list-style-type: none"> • Obtain support from UN agencies to resolve housing problems of shanty dwellers 	Ministry of Urban Development	As a UN-HABITAT project, preliminary activities commenced on construction of 1,083 housing units for low-income families living in under-served settlements. These include 833 housing units at 158 Watta close to Kelani Bridge, 200 housing units at Kuda Bandaranayakepura, Kotte and 50 housing units at Usavi Watta, Moratuwa. A housing guarantee fund named “Lanka Financial Services for Underserved Settlements (LFSUS)” has been established to provide guarantee for lending institutions.
<i>Health:</i>		
<ul style="list-style-type: none"> • Establishment of SPMC/ SPC managed drug stores 	Ministry of Health	A drug store has already been established at Sri Jayawardanapura Hospital and action has been taken to set up such stores at Negambo, Karapitiya, Baddulla, & Lady Ridgeway Children Hospitals.
<ul style="list-style-type: none"> • Increase the capacity of SPMC to supply essential drugs to hospitals to reduce the associated imports 	Ministry of Health	It has been processed for foreign aid assistance.
<ul style="list-style-type: none"> • Imposition of standards to ensure that substandard products will not enter the country 	Ministry of Health Sri Lanka Standards Institute	Standards have been imposed on 102 items and another 126 items are being covered by the safety regulations.
<ul style="list-style-type: none"> • Introduce regulations by the Food Advisory Committee relating to food items including all confectionery, chocolate based products, fish meat etc. and products nearing the expiry date 	Ministry of Health	Draft legislations prepared by the Ministry are presently under consideration of the Department of Legal Draftsman.
<i>Construction Industry:</i>		
<ul style="list-style-type: none"> • Implementation of skill development programme 	Ministry of Vocational Training & My. of Constructions	75 contract supervisors have been selected.
<i>Apparel Industry:</i>		
<ul style="list-style-type: none"> • Credit to reopen closed factories 	Dept. of Development Finance	Rs. 650 Mn. has already been released to reopen 04 factories employing 1300 people. Out of 9 proposals from garment factories, 2 factories are eligible to obtain funds.

Proposal	Implementing Agency	Progress
Banking & Finance: Consolidation of Lankaputra Development Bank (LDB)	Dept. of Development Finance	The operations of LDB and SME banks have been consolidated.
<ul style="list-style-type: none"> Set up National Wealth Corporation 	Dept. of Development Finance	Memorandum and Articles of Association for National Wealth Corporation have been finalized to register as a company.
<ul style="list-style-type: none"> Make mandatory to reinsure 50% of reinsurance business of insurance companies with national Insurance Trust Fund 	National Insurance Trust Fund	Re-insurance industry has been started first time in Sri Lanka through Regulation of Insurance Industry (Amendment) Act, No. 27 of 2007 and National Insurance Trust Fund (Amendment) Act, No. 28 of 2007 by which all insurance companies are required to reinsure 20% of their total reinsurance value with NITF.
Agriculture & Fisheries:		
<ul style="list-style-type: none"> Credit under 'Krushi Navodaya' 	Dept. of Development Finance	Krushi Navodaya' programme was launched on 01.03.2007 to provide loans farmers at 8 percent interest. The government contributes the balance 9 percent. Rs. 465 mn has already been distributed among 6,722 borrowers. Peoples Bank, Bank of Ceylon, LDB & Regional Development Banks launched a special programme to enhance the awareness of "Krushi Navodaya" programme among people.
<ul style="list-style-type: none"> Insurance scheme and Natural Disaster Relief Fund for fisheries sector 	Ministry of Fisheries, National Insurance Trust Fund	Two schemes of insurance for fishermen and fishing boats have been developed.
<ul style="list-style-type: none"> Upgrade the Rice Research & Development Institute (RRDI) at Batalagoda 	Dept.of Agriculture	Construction work of the paddy store at Batalagoda RRDI and infrastructure development work at Bombuwela and Labuduwa sub research stations coming under Batalagoda RRDI has commenced and construction work of training and hostel buildings at Batalagoda RRDI will commence at the end of 2007.
Science & Technology:		
<ul style="list-style-type: none"> Set up a Nanotechnology park 	Ministry of Science & Technology	Steps are being taken to set up National Nanotechnology Board under the Chairmanship of HE the President, to establish two public-private companies with BOI status. A private firm has been selected to work out a feasibility study and a business plan. A land of 50 acres has been identified at Hamagama-Pitipana for the project.
<ul style="list-style-type: none"> Develop E- Villages 	President Office, Ministry of Education	Eight villages at Ilukkumbura, Damahana, Moragollagama, Bibila, Beliatta, Ketawala, Kadurupitiya and Hingurukatuwa are being developed as e-villages.

Proposal	Implementing Agency	Progress
Labour Market:		
<ul style="list-style-type: none"> • Foreign Employment: <ul style="list-style-type: none"> ○ Accelerate skills development programmes 	Ministry of Foreign Employment Promotion	The curriculum of the training courses is being revised to meet the standards in the labour receiving countries.
<ul style="list-style-type: none"> • Graduates: <ul style="list-style-type: none"> ○ Area specified appointments 	Ministry of Public Administration, Ministry of Education & Dept of Management Services	Examinations have been held to recruit 9,259 teachers for Provincial Council schools as area specific appointments.
<ul style="list-style-type: none"> ○ Other 		282 for Sri Lanka Ayurvedic Medical Service, 1,700 for Sri Lanka Medical Service, 244 Assessors, 544 tax officers, 12 District Valuation Officers and 50 Assistant District Valuers have been recruited in 2007.
<ul style="list-style-type: none"> • Public Service: <ul style="list-style-type: none"> ○ Implement the 50% balance salary increase of public servants 	Ministry of Public Administration	Implemented by the PA Circular No.06/2006 dated 25.04.2006 and Management Service Circular No. 30 dated 22.09.2006 for Corporations.
<ul style="list-style-type: none"> ○ Grant cost-of-living (COL) adjustment for 2007 	Ministry of Public Administration	Implemented by the P.A. Circular No. 02/2007 dated 10.01.2007 and No. 17/2007 dated 17.07.2007 and Management Service Circular No. 29 (I) dated 25.01.2007 and No. 29(II) dated 08.08.2007 for Corporations.
<ul style="list-style-type: none"> ○ Grant leave encashment 	Ministry of Public Administration	Implemented by the P.A. Circular No. 10/2006 dated 06.06.2006.
<ul style="list-style-type: none"> ○ Grant distress loans on the basis of the salary structure of the respective year with priority for employees in security forces, education & health sectors 	Department of National Budget	Implemented by the Budget Circular No.133 dated 29.12.2006. Limits of respective Advance Accounts have been increased and included in Budget Estimates 2008.
<ul style="list-style-type: none"> ○ COLA for pensioners and grant balance arrears payments to those who retired 	Ministry of Public Administration.	Implemented by the P.A. Circular No. 02/2007 of 10.01.2007 and No. 17/2007 of 17.07.2007

Proposal	Implementing Agency	Progress
before 1997	Administration, Dept. of Pension	for COLA and the Circular No. 02/2006 dated 20.03.2006 issued for arrears payment by the Department of Pensions.
<ul style="list-style-type: none"> • Productivity: <ul style="list-style-type: none"> ○ President Task Force for Productivity Improvement 	President's Office	National Productivity Council at the Labour Secretariat is being strengthened.
<p>Judiciary:</p> <ul style="list-style-type: none"> • Establishment of Provincial High Courts 	Ministry of Justice	The actions have been taken to set up Provincial High Court in Nuwara Eliya of which construction works will be handled by Central Engineering Consultant Bureau.
<p>Welfare:</p> <ul style="list-style-type: none"> • Plantation Community: <ul style="list-style-type: none"> ○ Upgrade health centers in estate sector 	Ministry of Health	In addition to the 21 estate hospitals taken over by the Provincial Health Ministries, it is expected to take over the remaining 28 estate hospitals before end of 2007. Cabinet approval has already been obtained to take over the preventive and community health services to the Provincial Councils.
<ul style="list-style-type: none"> • Displaced persons in unsafe areas: <ul style="list-style-type: none"> ○ Implement a special programme focusing health and nutritional standards 	Ministry of Nation Building	Preliminary works are being done to provide basic health & sanitation facilities and awareness programmes to improve the health and nutrition status of the people living in welfare centers and threaten villages.
<p>Cultural Development:</p> <ul style="list-style-type: none"> • Select 1,000 temples to discourage use of narcotics and liquor 	Ministry of Religious Affairs	1,000 temples have been selected for the implementation of the programme and 2 regional operational committees have been appointed in two temples as pilot projects. Buddhist co-coordinators, Samurdhi officers and other government officers are being trained as implementers of the programme. Training programmes are conducted for 60 Dhamma preachers.
<ul style="list-style-type: none"> • Set up an international institute for Buddhist studies 	Ministry of Religious Affairs	The Center; "Sadaham Sevana" is under construction at Gothami Uyana, Rajagiriya.
<ul style="list-style-type: none"> • Promote religious education by enhancement of communication and teaching skills of religious teachers 	Ministry of Religious Affairs	A panel has been appointed for the development of text books and the curriculum and the syllabus has been already developed.
<ul style="list-style-type: none"> • Preserve Sri Lankan Heritage through Special Programmes 	Ministry of National Heritage	Awareness programmes for the preservation of archaeological places are being conducted to obtain contribution from the community.

Annexure II**Revenue Proposals**

Proposal		Rs. Million
1.	Collection of Arrears prior to 31 st March 2007 – Inland Revenue Department	5,000
2.	Revisions on Income Tax	300
3.	New Policy on Granting Tax Holidays	500
4.	Changes in Economic Service Charge	400
5.	Cigarette Rate Revisions	4,000
6.	Liquor Rate Revisions	3,200
7.	Changes in Alcohol Spirits	500
8.	Stamp Duty Revisions on Liquor Sales Outlets	60
9.	Revisions in Excise Duty on Motor Vehicles & Consumer Durables	3,000
10.	Revisions on Import Export Licencing	500
11.	Administrative Changes – Custom Revenue	2,000
12.	Increase in Surcharge on Custom Duty	2,300
13.	Increase in Cess Rates	2,100
14.	Imposition of a Cess on Textile Imports	1,500
15.	Revisions on Regional Infrastructure Development Levy	1,500
16.	Rate Revisions to Social Responsibility Levy	1,000
17.	Revisions on Telecommunication Licencing Fees	1,000
18.	Imposition of a Levy on Wireless Telephones	2,200
19.	Environmental Tax	1,000
20.	Reducing VAT on Petrol to 5 Percent	(7,400)
21.	Revisions on Passport Extension Fees	250
Total		24,910

Expenditure Proposals

Proposal	Rs. Million
1. To improve the distribution network of the essential commodities	650
2. Rice subsidy for the estate sector and neighboring areas	200
3. Providing bank guarantee to state wholesale trading establishment (Contingent Liability)	10
4. “ <i>Diyawara Gammana</i> ” housing programme	100
5. Grade 5 Scholarship Programme (funds already provided under the Ministry of Education)	100
6. Graduate Employment Scheme (funds already provided under the respective Ministries)	1,850
7. Capacity Building of the University of Moratuwa to increase the intake of Quantity Surveyors)	75
8. Free Trade Zone for building materials (funds already provided under the Ministry of Consumer Affairs)	250
9. Local Milk Production	100
10. “ <i>Api Wawamu – Rata Nagamu</i> ” programme	300
11. Centre for Intellectual Property Rights (funds already provided in Intellectual Property Fund)	50
12. Cost Of Living Allowance for public servants (funds provided in the Treasury Miscellaneous Vote)	6,000
13. “ <i>Api Wenuwen Api</i> ” Fund	750
14. Housing Development Programme for urban underserved	100
15. Establishment of Project Management Department	50
16. Organic Fertilizer Production & Usage	500
17. Nutritional Food at concessionary prices	250
18. Distress loans to government servants (funds provided in the Treasury Miscellaneous Vote)	1,500
Total	3,075

Gross Borrowing Requirement - 2008

	Rs Billion
1. Total Receipts other than Government Borrowings	800
2. Total Payments including Debt Repayments	1,489
3. Risk Provision	19
4. Total Gross Borrowing Requirements to be Recorded in Government Accounts	708
Of which	
Total Debt Repayment	373

Accordingly borrowing limit in the Appropriation Bill will be reduced from Rs. 741 Bn. to Rs. 708 Bn.

1. Tax Reliefs for Co-operative Societies

(1) Income Tax

Any profits or Income of a Co-operative Society will be exempt from Income Tax for a period of 5 years Accordingly,

- (a) Section 7 of the Inland Revenue Act No. 10 of 2006 will be amended to include "Any Co-operative Society registered under the Co- operative Societies Law No.05 of 1972".
- (b) Item 7 of the Third Schedule of the Inland Revenue Act, which includes the tax rate of 5% imposed on Co-operative Societies will be removed.
- (c) The 10% withholding tax imposed on the interest accruing on the deposits made by a Co-operative Society in a bank or a financial institution will not be charged.
- (d) The relief of Rs.200, 000/- granted on the interests on deposits made by Senior Citizens will be provided to interest accruing on deposits made in Co-operative Rural Banks as well.

(2) Value Added Tax -

- (a) Co-operative Societies registered under Co-operative Societies Law No 05 of 1972 will be exempted from Value Added Tax.
- (b) Co-operative Rural Banks will be exempted from Value Added Tax on Financial Services.

(3) Debits Tax -

Section 13 (1) of the Debits Tax Act No.16 of 2002 will be amended to exempt any current or savings accounts maintained by a Co-operative Society or a Rural Bank registered under Co-operative Societies Law No 05 of 1972.

2. Neganahira Udanaya

Tax Reliefs for new Investments in the Eastern Province -

The following tax reliefs will be available on investments in any undertaking of any nature, where

- i. The Investment is over Rs.50 MN, and
- ii. Providing Employments opportunities for not less than 50 persons.

Income Tax:-

(a) Profits and Income will be exempt for 05 years commencing from

(i) The year of assessment in which the relevant new undertaking Commences to make profits

or

(ii) The year of assessment in which the undertaking completing three Years from the commencement of the commercial operations of that Undertaking whichever occurs earlier

(b) In providing Loans/financial facilities for these investments ,any interest paid to any bank or financial institution on these loans granted will be exempt in the hands of the relevant bank or the financial institution.

The relevant amendments will be made to the Inland Revenue Act.

(c) Identified Plant and Machinery imported for the use of the new undertaking which will be established in the Eastern Province will be entitled for Customs Duty and Value Added Tax concessions.

3. Tax Reliefs for “ Api Wenuwen Api”

(a) Section 7 of the Inland Revenue Act will be amended to exempt the “Api Wenuwen Api” fund. Accordingly any profits and income including interests accruing on Bank deposits of the fund, will be exempt from Income Tax.

- (b) Any donation made to the “ Api Wenuwen Api” fund will be treated as a donation to a Government fund and will be allowed in full as a deduction under qualifying payments.
- (c) Section 13 (1) of the Debits Tax Act No. 16 of 2002 will be amended to exempt from debits tax, any current or Savings Account maintained by the "Api Wenuwen Api" fund at a Bank.

4. Non-resident Homeland Development Bonds

Any Sri Lankan residing abroad, who invests in Non-resident Motherland Development Bonds, will be exempt from-

- (a) The Property Transfer Tax on the acquisition of any property, under the Finance Act No 11 of 1963 as last amended by the amendment Act No. 08 of 2004.
- (b) Income Tax payable on the interest accruing on Non-resident Motherland Development Bonds

5. Local Shipping Industry

- (a) Registration of a ship under Sri Lanka Flag will not be considered as an import for customs purposes, thereby will be exempt from Customs duties and similarly be exempt from Port and Airport Development Levy.
- (b) When a person transports his own goods in a Ship owned by him, a sum not exceeding 15% of the value of such goods will be treated as freight charges for purposes of Customs duty.

6. Local Films and Tele Drama Industry

i. Income Tax Reliefs:-

The Section 34 of Inland Revenue Act will be amended

(a) To grant qualifying payment.

- For the constitution of a new cinema hall in accordance with section 24 (a) of the Inland Revenue Act, subject to a maximum of Rs. 25 million, and
- for the moderation of an existing cinema halls in accordance with section 24 (b) of the Inland Revenue Act, subject to a maximum of Rs. 10 Million.

(b) To increase the qualifying payment relief up to Rs. 50m, in relation to a film produced with the approval of the Film Corporation.

ii. VAT Reliefs:

The Value Added Tax rate on the undermentioned equipments imported on or after 01/01/2008 with the approval of the Film Corporation will be reduced from 15% to 5%.

HS No.	Description
8539 . 29	Electric Filament or discharge lamps, including sealed beam lamp units and ultra violet or infra-red lamps; are - lamps
8545.19.01	Arc Lamp Carbon

iii) Customs Duty Reliefs

The abovementioned items imported on or after 8/11/2007 will be exempted from customs duty.

7. Gem and Jewellery Industry

(1). Income Tax:-

(a) Profits and Income from the Export after cutting and polishing of gems imported in raw forms will be exempted from income tax

The relevant amendment to Section 13 of the Inland Revenue Act will be made.

(b) (i) 2.5% income tax will be charged on the value of gems sold at the gem auctions, conducted under the sponsorship of the State Gem Corporation. This will be the final tax for purposes of Income tax.

(ii) The State Gem Corporation will recover such tax and remit to the Commissioner General of Inland Revenue.

(2) . Economic Service Charge -

For the purpose of Economic Service Charge, in the instances where Gems are imported on No Foreign Exchange (NFE) basis and then cut, polished and exported, the turnover and the applicable rate will be:

i. Either on the total turnover (FOB) at the rate of 0.25%.

or

ii. The total Export Value (FOB) less the cost of import of the gems(CIF) at the rate of 1%. (without any threshold.)

The taxpayer will be entitled to decide the basis that should be adopted. Gazette will be issued accordingly.

8. Relocation of existing undertakings in Colombo and Gampaha Districts, in other districts, or commencement of a new undertaking:

(a) Any company which relocates its an undertaking outside Colombo and Gampaha Districts within two years commencing from 01.04.2008, subject to

the conditions stipulated under section 21 of the Inland Revenue Act No. 10 of 2006, the Company owning that undertaking will have an option to select either to claim investment relief equivalent to the relocation expenditure or a tax exemption for 05 years of the profits of the undertaking relocated. The relevant amendments to section 21 and 34 will be made.

- (b)** The time period granted under Section 20 or 21 of the Inland Revenue Act No. 10 of 2006 to complete the investments for commencing new undertakings in an area outside Colombo and Gampaha Districts or to relocate an existing undertaking within the Colombo or Gampaha District in an area outside, will be extended till 31.03.2009 from the present deadline of 31.03.2008.

9. Tax Holidays.

- (a)** Tax holidays that are already granted at present under the Inland Revenue Act No. 10 of 2006 or under Board of Investment Law No. 4 of 1978, will not be extended further after the expiry of each tax holiday granted.
- (b)** A tax holiday which commences after 1.4.2008, under the Board of Investment Law or under Sections 17, 18,19,22,23,24,24(a) or 24 (b) of the Inland Revenue Act will not be more than three years maximum.
The profits and income derived after the expiry of such tax holiday as per (b)above will be taxed on the succeeding years as follows.
- i. first Year, at 5%
 - ii. second year, at 10% and,
 - iii. third year, at 15%.
- (c)** The five year tax holiday under the Board of Investment Law or the Inland Revenue Act for Regional Development, will remain unchanged.
- (d)** The abovementioned limitations will not apply to tax holidays on special projects (flagship) which had been identified as of National Importance.

- (e) Before granting a tax holiday available under any of the Acts, approval from the Ministry of Finance has to be obtained.
- (f) A list of persons for where tax holidays were granted is published in the Gazette as the end of each year.

10. Income Tax

(a) Exemption of foreign earnings from Income Tax.

Profits and income earned by any person or partnership in Sri Lanka, being -

- i. Salaries, allowances or fees paid in respect of services rendered by such person or partnership to any person or partnership outside Sri Lanka; and
- ii. Dividends or interest on an investment made outside Sri Lanka.

will be exempt from Income Tax, if such profits and income are remitted to Sri Lanka, through a bank.

- (b) Deduction will be allowed without any limitation in respect of qualifying payment being investments in housing projects for the development of houses for inmates of sanities in urban areas.
- (c) Withholding tax at 10% on the interest from investment in Treasury Bonds or Treasury Bills by Credit Guarantee funds of the Central Bank of Sri Lanka will be made a final Tax.
- (d) **Issue of company shares to employees as an employment benefit-**

The condition for exemption of employment benefits from the issue of shares to employees, that such issue should be based on a scheme uniformly applicable to all the employees will be varied, so that such exemption would be available, if the

Commissioner General of Inland Revenue is satisfied that such scheme is a reasonable one.

Section 8 of the Inland Revenue Act will be amended accordingly.

(e) Withholding of Income Tax

Withholding tax provisions of the Inland Revenue Act No. 10 of 2006, under

- i. Chapter XVII, in respect of specified fees;
- ii. Chapter XVIII, in respect of rent, lease rent or such other payments, and
- ii. Chapter XX, in respect of Royalty, Annuity, and management fees,

will not be applicable to any person or partnership paying Economic Services Charge. The issue of directions in relation to such persons will be made compulsory.

(f) Income Tax liability of a non citizen employed in Sri Lanka.

Section 79 and 40 of the Inland Revenue Act will be amended to make the income tax calculation of non-citizen individuals employed in Sri Lanka to be same as that of citizen of Sri Lanka.

(g) Payment of tax by the employer on behalf of employees.

If an employer has undertaken to pay income tax on the employment income of an employee, the deduction to the employer will be restricted to the amount of income tax actually payable by the employer in respect of such employment income.

Section 26 of the Inland Revenue Act will be amended to provide for that restriction.

(h) Losses from leasing business

Section 32 of the Inland Revenue Act will be amended to provide that any loss from the business of leasing could only be set-off against profits from such business.

(i) Donations to approved charities by Companies.

Section 34 (4) of the Inland Revenue Act will be amended to revise the restriction of the deduction of qualifying payment made by a company to an approved charity, to an amount not exceeding $1/5^{\text{th}}$ of assessable income or Rs. 500,000/= which ever is low.

(j) Certain provisions in the Inland Revenue Act No. 10 of 2006, which have led to unintended interpretations, will be amended as follows:

- i. Section 25 (a) will be amended to restrict the allowability of depreciation allowance in respect of ships, only to the owner of the ship and not in respect of ship chartered .
- ii. Section 25 (k) will be amended to make clear the non deductibility of hire or rentals included in the traveling expenses.
- iii. The definition of “employee” for the purposes of section 131 will be adopted for the purposes of section 131(s),(t) and (u) as well .
- iv. Non inclusion in the assessable income of interest from any Rupee Denominated Treasury Bonds purchased out of funds drawn from any Treasury Bond Investment Eternal Rupee Account will be extended to cover profits and income from such bonds.
- v. The last date for the distribution of distributable profits of the preceding year as well as the last date for payment of tax in respect of non-distribution of distributable profits to the required amount, will be made as 30th September of the current year.
- vi. Dividend tax rate referred to in Section 53(3) will be revised to 10% .
- vii. Conditions applicable to provident funds, pension funds and gratuity funds approved by the Commissioner General of Inland Revenue will be made

applicable uniformly to such funds already approved. These conditions will be published by a Gazette Notification.

viii. In addition to the above, in the instances where inconsistencies are appeared in the Sinhala, Tamil and English texts, and the provisions which cannot be properly interpreted, necessary amendments will be made.

11. Value Added Tax

(a) Amendments will be made to the First Schedule of the Value Added Tax Act to exempt Value Added Tax on Co- operative Societies and to Chapter III A of the Value Added Tax Act to exempt Co- operative Societies from Value Added Tax on financial services.

(b) Paragraph (c) of the First Schedule to the Value Added Tax Act will be amended to exempt plant and machinery imported for business purposes by enterprises qualified for tax holiday under the "Naganahira Udanaya " program

(c) Part II of the First Schedule to the Value Added Tax Act will be amended to exempt certain identified Government projects from Value Added Tax. Further, section 22 of the Act will be amended to allow Input Tax to service suppliers of such projects.

(d) The following exemptions and other amendments, will be made to the Act.

i. Exemptions

With effect from 01.07.2007

- supply of all health care services by any medical institute which has entered into an agreement with the BOI under section 17 of the BOI Law, on or after

April 1, 2001, where the total cost of the project to which such agreement relate to, is not less than 10 m USD.

- Locally manufactured clay roof tiles, locally produced unprocessed vegetables and fruits, unprocessed fishing products, import of rattans and supply of imported rattans.

With effect from 17. 07.2007,

- Locally manufactured chemical naptha.
- Import of aircraft engines or aircraft spare parts.

The First Schedule to the Value Added Tax Act will be amended to incorporate the above exemptions.

ii Deferment facility

- The present deferent period of 12 months, applicable on temporary import of plant and equipments used in long term development projects will be extended until the project is completed. Relevant amendments will be incorporate to section 2 and the 1st schedule of the Act.

iii With effect from 05/06/2007

- Third schedule will be amended to reduce the Value Added Tax rate from 15% to 5%, on the import of canned fish, dhal and green peas

(e) i. First Schedule to the Value Added Tax Act will be amended to exempt,

with effect from 1.1.2008, milk products made out of milk manufactured in Sri Lanka, products made out of rice manufactured in Sri Lanka, locally manufactured sugar, import of yarn for textile industry and with effect from 1.1.2004. supply of locally produced prawns.

ii. Value Added Tax on Petrol will be reduced from 15% to 5% with effect from 01.01.2008

(f) In terms of section 22 (6) practical difficulties exist in claiming input tax under the existing 18 months period, to receive the invoice and to claim input credits. Hence amendments will be made enabling to claim input tax within 12 months from the date of the invoice.

(g) The name of the Value Added Tax (WHT) referred to in section 26(A) will be charged to VAT (Advanced Tax)

(h). Apart from the above amendments necessary amendments will be made to make corrections in the Sinhala , Tamil and English texts where necessary.

12. Economic Service Charge

The Economic Service Charge Act No. 13 of 2006 will be amended effective from 01. 04. 2008 to provide for the followings:

(a) If the turnover of any business comprises of export or earnings in foreign exchange, the rate of Economic Service Charge should not exceed 2.5%.

(b) The Economic Service Charge rate of 0.5% charged on the turnover on sale of liqueur and motor vehicles will be increased to 01%

The rate schedule of the Economic Service Charge Act will be amended accordingly.

(c) The undermentioned amendments will be made to rectify the existing anomalies in the Economic Service Charge Act.

i. The rate of 0.5% applicable to partnerships will be removed and the rate of Economic Service Charge will be levied on the basis depending on the nature of Business of the Partnership.

ii. The concessionary rate of 0.1% applicable for apparel exports at present will be granted to businesses of exporting apparels through buying offices. The relevant amendment to item 11 of the schedule will be made.

iii. The facility available to set off the Economic Service Charge paid under Economic Service Charge Act against the Income Tax payable for 05 years will be extended to Economic Service Charge paid, prior to 01.04.2006, under the Finance Act No.11 of 2004, as well. The relevant provision will be incorporated in the Act.

13. Debits Tax

Section 13 (1) of the Debits Tax Act No. 16 of 2002 will be amended to exempt the following accounts from the Debits Tax.

(a) Accounts maintained by School Development Societies for money provided by Divisional Secretaries to supply lunch for the School children.

(b) Accounts maintained by a Co- operative Societies or a Rural Bank registered under Co - operative Society Law No. 05 of 1972.

(c) Accounts maintained by Api Venuwen Api Fund.

14. Stamp Duty

- (a) Stamp Duty (Special Provisions) Act will be amended to provide for payment of Stamp Duty on an instrument executed for the lease or mortgage of any property by affixing stamps on the instrument or by the payment of due stamp duty to a designated bank and affixing the certified receipt of such payment to the instrument. The Stamp Duty is payable at the time of execution of the instrument or before that. The Act will however, be amended to provide for payment of Stamp duty on such instrument within 7 days from the date of execution of the instrument, if the person liable to pay Stamp Duty is unable to pay such duty on the date of execution of the instrument for reasons beyond such persons control.
- (b) The stamp duty payable on a receipt or a discharge at the rate of Rs. 1/- per Rs. 1000/- subject to a maximum of Rs. 50/- , will be amended as

- i. for receipts up to Rs. 25,000/- to be exempted from such duty
- and
- ii. to charge Rs. 25/- for receipts exceeding Rs. 25,000/-,

Relevant amendments to the gazette notification will be made.

- (c) The Stamp Duty of Rs. 1000/- charged at present, on licences issued for the sale of liquor, for the period mentioned in the licence, will be increased to Rs. 10,000/-. The relevant amendment will be made to the gazette notification. The restriction to 10% of the licence fee, will not be applicable in the case of licences to sell liquor.
- (d) Section 6 of the Stamp Duty (special provisions) Act will be amended to provide for payment of Stamp Duty on the instruments referred to in paragraphs (c) and (d) of Section 4 of such Stamp Duty Act, by the applicant for the warrant or licence.
- (e) Amendments to respective provisions will be made to rectify the inconsistencies in Sinhala, Tamil and English texts of the Stamp Duty Act

15. Social Responsibility Levy.

- (a) Effective from 01.04.2008 the Social Responsibility Levy charged on Company's Income Tax will be remained and the Social Responsibility Levy charged on Personal Income Tax will be removed.
- (b) Social Responsibility Levy will be increased from 1% to 1.5%.
- (c) Amendments with regard to the Social Responsibility Levy chargeable on Income Tax will be effective from 01.04.2008 and the amendments with regard to Social Responsibility Levy chargeable on other taxes will be effective from 01.01.2008.

16. Cess

The new Cess rates applicable on selected imported items will be gazetted under section 14(1) of the Export Development Act No. 40 of 1979. The new gazette notification will be effective from 8th November, 2007.

17. Excise Duty

The new Excise duty rates applicable on excisable articles will be gazetted under section 3 of the Excise (Special Provisions) Act No.13 of 1989. The new gazette notification will be effective from 8th November, 2007.

18. Regional Infrastructure Development Levy

All existing Regional Infrastructure Development Levy rates will be increased by 2.5 and new rate will be effective from 1 January 2008. The necessary amendments will be made to the Regional Infrastructure Development Levy Act No. 51 of 2006

19. (a) Customs Duty Changes

Serial No.	H.S Code	Description	Customs Duty	
			Prevailing Rates of Custom Duty	Proposed Custom Duty
01	4011.20	Tyres used for Buses and Lorries.	28% or Rs. 80/= Per Kg	28% or Rs. 70/= Per Kg
02	6406.20	Shoe Soles	15%	15% or Rs. 30/= Per Pair
03	0713.40	To create two separate H.S. Codes for Whole Lentils and Split Lentils.	2.5 %	2.5%
04	2520.20 2817.00 2615.10 2526.20	Chemicals used in the ceramic industry	6% 2.5% 2.5% 6%	2.5% Free Free 2.5%
05	8437.10.01 8437.80.01	New machinery used for rice industry	2.5%	Free
06	8418.91.01	Refrigerators Cabinets imported to manufacture refrigerators	28%	15%
07	8528.72.99	TV sets exceeding 30 inches	15%	28%
08	1517.90	Introduction of a new H.S Code for Margarine	15%	28%
09	4802.58.01 4802.61.01 4802.62.01 4802.69.02 4810.29	Box Board	28% 28% 28% 28% 2.5%	2.5% 2.5% 2.5% 2.5% 2.5%

	4810.92		Free	2.5%
10	8471.60 8471.70 8471.80 8517.62.09	Computer parts and accessories	6% 6% 6% 6%	2.5% 2.5% 2.5% 2.5%
11	4407.10 4407.21 4407.22 4407.25 4407.26 4407.27 4407.28 4407.29	Introduction of specific duty for Sawn Timber	2.5%	2.5% or Rs. 1600/= Per cubic M.
12	2208.20 2208.30 2208.40.01 2208.40.09 2208.50 2208.60 2208.70 2208.90.01 2208.90.09	Spirits beverages	Rs. 880/= Per L. and Rs. 825/= Per L.	Rs. 1000/= Per L
13	Changes for List of Concessions and List of Exemptions	<ol style="list-style-type: none"> 1. Thermosetting paints for mirror industry 2. Containers for the packing of Gems and Jewellery 3. Containers for the packing of Cosmetics 4. New Machinery and equipment by the Ceylon Electricity Board and its subsidiary companies. 		

(b) Surcharge on Customs Duty

Change of the Surcharge rate on Customs Duty to 15% under Section 10 A of the Customs Ordinance (Chapter 235).

Customs Duty changes will be effective from November 08, 2007

20. Effective Dates.

Unless otherwise stated, the proposed amendments in relation to:

(a) Value Added Tax, Stamp Duty and Debits Tax will be effective from January 01, 2008 , and

(b) Income Tax and Economics Service Charge will be effective from April 1, 2008.

**Priority Development Projects
2006-2010**

		Rs.Mn.				
Sector	Priority Development Project	2006	2007	2008 Estimate	2009 Pro.*	2010 Pro.*
Economy & Environment						
Agriculture	Api Wawamu Rata Nagamu- Gardening Programme	-	-	305	400	300
Irrigation	Construction of Moragahakanda and Kaluganga Reservoirs	-	500	1,600	7,000	10,000
	Construction of Deduruoya	15	720	720	1,500	2,000
	Construction of Rambukkanoya Reservoir	3	400	400	1,000	350
	Construction of Heda Oya Reservoir	-	46	117	2,000	2,000
	Construction of Yan Oya	-	10	100	3,000	3,000
	Construction of Uma Oya	-	50	30	900	3,000
	Construction of Lower Uva Reservoir	-	20	100	250	-
Land	Bim Saviya- Land titling programme	-	500	500	1,520	2,024
Industrial Development	Establishment of Industrial Estates - at Puttlam, Embilipitiya, Buttala, Matugama, Kalutara, Kappalturai, Madampa & Galigamuwa	187	415	300	500	600
	Thrust Area Development Programme - Development of nine selected domestic industries	3	93	340	400	500
Plantation	Plantation development project - Plantation roads & community development	72	1348	1,353	879	440
	Small Holder Out growers Estate Development Programme	-	263	155	224	289
	Rubber Development Programme	-	299	350	300	250
Fisheries & Livestock	Dickowita Fishery Harbour	-	1230	650	3,000	-
	State of the art Fish market at Peliyagoda	85	150	320	710	-
	Aquatic Resource Development & Quality Improvement Project	325	466	425	410	-
	Promotion of Liquid Milk Consumption	32	30	35	35	30
Trade &	Strengthening Cooperative Societies	-	50	180		

Marketing					100	75
	Technology Development & Service Centres	-	12	20	30	30
Tourism	Locational developments in different places of tourist attraction	84	400	927	668	505
	Domestic Tourism Development - Establishment of Visitor Centers at Ianmaluwa & Weeravila, a Pilgrims Rest at Seruwawila, 3 Watch Huts at Rekawa Beach, and 10 Comfort centers in places of tourists attraction	-	-	115	130	150
Environment	Pilisarua - Solid Waste Management Programme	-	1	725	850	725
	Erecting tsunami warning towers in selected coastal areas	-	350	600	600	600

Human Resources Development

Health	Improvement of Curative Health Care Services at General Hospital Anuradhapura	-	15	43	490	510
	Theatre Complex at General Hospital Kandy	43	139	100	30	30
	Development of Godagama Hospital	90	639	550	2,600	3,250
	Sirimavo Bandaranaike Children's Hospital	75	164	100	165	100
	Neuro Trauma Unit at National Hospital	182	1336	937	77	-
	Epilepsy Unit at National Hospital	-	-	427	1,380	715
	Improvement of Kurunegala Teaching Hospital	-	540	1,052	2,500	2,633
	Development of Hambantota & Belliatta Hospitals	-	404	2,000	4,000	5,100
	Millennium Ward Complex at Teaching Hospital Kalubowila	110	135	150	100	900
	Improvement of Preventive & Curative Health Services in Estates	-	-	255	475	460
	Supply of Medical Equipment	1,034	1,330	1,350	1,550	2,000
	Hospital Rehabilitation	1,353	910	1,180	4,250	6,000
	State of the art National Dental Hospital	-	-	30	300	300
	Preventive health care programmes	415	798	524	420	118
Education	Development of 34 Isuru Schools, 150 model primary schools and 100 Navodya schools	-	385	545	410	445

	Construction of 2 Ranaviru Colleges in Colombo & Ippologama	-	200	275	275	275
	Development of Plantation schools	515	509	226	232	236
	Provision of computer equipment & other assistance to schools	1,338	1,037	1,300	1,344	-
	Development of Infrastructure in Universities/ Institutes	2,456	4,800	5,300	6,000	6,500
	Open University Distance Education development	646	1,420	630	602	955
	Rehabilitation of tsunami affected 2 schools at Ratgama & Panadura, Universities & Advance Technological Institutions	42	877	1,167	100	50
	Development of South Eastern University	-	200	250	300	100
Vocational & Technical Training	Niyagama Vocational Training Centre	-	175	800	250	-
	Upgrading Technical Colleges at Akkaraipattu, Ampara, Weerawila, Wariyapola, Dambulla etc	293	921	543	221	200
	Yovun Diriya	148	175	50	50	50
Sports & Public Recreation	Reid Avenue Sports Complex - Colombo	-	100	175	192	212
	Grandstand Sports Complex - Nuwara Eliya	-	100	150	165	181
	Godagama Sports Complex - Matara	-	100	100	110	121

Infrastructure Development

Roads	Southern Expressway	7,130	7,256	6,468	13,028	11,456
	Colombo-Katunayake Expressway	246	2,650	1,700	3,300	4,100
	Outer Circular Highway	187	2,885	4,580	8,235	8,835
	Maintenance of 11,700 km of roads & around 4000 bridges	2,933	3,410	2,950	3,245	3,570
	Development of Ratnapura-Balangoda-Bandarawela, Panadura-Ingiriya, Katugastota-Kurunegala roads etc.	5,037	3,563	1,691	38	38
	Development of Padeniya-Puttlam, Ingiriya-Ratnapura, Nittambuwa-Kandy, Wellawaya-Siyambalanduwa -Karaitivu roads etc.	935	3,464	4,361	4,975	1,833

	Widening & Improvement of 665km of roads and 14 bridges	3,001	3,427	4,880	4,025	4,432
	Habarana-Kantale, Kandy-Mahiyangana, Badulla-Nuwara Eliya, Puttalam-Anurahapura roads etc.	1	1,572	4,056	4,986	5,586
	Construction of bridges at Manampitiya, Katugastota, Bentota, Kiiniya & Mannar, Steel bridges at Hirana, Weralugastotupala, Molkawa & Lakpandura and flyovers including Nugegoda	1,180	2,543	4,734	4,395	3,900
	Reconstruction of Tsunami affected Katukurunda-Matara-Weeravila-Siyambalanduwa-Akkaraipattu, Batticaloa-Trincomalee-Pulmodai, Allai-Kantale roads etc., and Bridges at Arugambay, Mahanama, Kalladi, Otamawadi etc.	1,443	8,049	7,552	8,101	3,405
Transport	Train Fleet Rehabilitation - Carriages, Engines & Wagons	816	1,041	1,904	1,995	2,233
	Rehabilitation of permanent way with new rails & sleepers	1,938	1,100	1,875	1,600	1,650
	Development of Rail Tracks & Stations	504	3,330	3,815	3,185	2,912
	Construction of Matara-Kataragama New Rail Line	71	202	1,160	2,000	1,500
	Improvement of Signaling System	-	51	1,180	549	553
	Purchase of Train Engines- DMUs & Wagons	-	4,700	7,400	750	-
	Purchase of buses, Engine Kits & Repair buses	3,916	2,800	2,350	1,180	2,080
Power & Energy	Upper Kotmale Hydro Power Project	1,256	6,300	4,000	8,000	8,900
	Norochochilai Coal Power Plant	249	15,000	8,500	10,300	12,250
	Coal Power Plant at Trincomalee	-	-	5	2,000	2,000
	Kerawalapitiya Kotugoda Transmission Line Project	1	1,564	2,067	850	460
	Galle Transmission Development Project	-	710	1,490	650	130
Water Supply	Greater Kandy Water Supply Schemes	2,159	1,193	445	957	1,170
	Towns South of Kandy Water Supply Scheme	1,504	1,510	3,000	1,680	120
	Greater Kurunegala Water Supply Scheme	8	465	600	990	450
	Construction of a new Treatment Plant at Kelani right bank	-	1,688	961	2,900	2,139
Ports & Aviation	Construction of Hambantota Port	48	325	6,700	18,000	15,150

	Colombo South Port Project	-	5,700	10,140	10,980	8,540
	Galle Regional Port Project	-	130	1,700	3,705	4,030
	Oluvil Port Project	19	580	100	1,490	1,490
	Weeravila Airport	-	100	150	2,500	4,000
Communications	Online postal network with 600 post offices	-	-	50	50	50
Township Development	Kadawata-Kaduwela-Kottawa Townships Development	-	-	650	330	390
	Administrative Complex & International Conventional Centre at Hambantota	-	900	1,623	1,475	-
	Greater Dambulla Development	20	200	100	50	-
Livelihood & Regional Development						
	Gama neguma - 14,000 villages	575	1,000	15,000	20,000	25,000
	Gemi Diriya- Livelihood development programme in the districts of Badulla, Monaragala, Hambantota, Galle, Matara & Ratnapura	852	1,600	1,663	315	-
	Jathika Saviya -Village Development	370	2,000	1,300	1,500	1,500
	Decentralized Budget	1,133	1,125	1,125	1,125	1,125
	Improvement of provincial & local authority level infrastructure	4,705	16,383	16,257	19,512	21,502
Production	Kirigammana-Promotion of milk products	49	90	120	100	100
	Kantha Diriya- Handloom development programme	22	25	50	60	70
	1000 Industrial Villages	438	420	250	100	50
	Vavunia, Monaragala & Chilaw Economic Centers	-	50	150	100	120
Irrigation	Small Irrigation Schemes	448	908	659	800	850
	North East Irrigated Agriculture project	628	1800	1,315	1,000	-
Roads	Maganeguma - Rural road development	1,800	3,082	4,000	4,000	4,500
	310 km Provincial Road Improvement in Central & Sabaragamuwa Provinces	880	2,500	2,200	532	-
	217 km roads in Northern & Eastern Provinces	515	685	1,600	554	447
Electricity	Electricity distribution expansion to unserved sites in Hambantota, Monaragala, Ratnapura, Kegalle & Trincomalee	-	1,290	1,930	1,100	-
	Rural Electrification-Electrifying selected rural villages	2,050	5,801	3,455	2,500	-

Water Supply	Provincial Electricity Distribution Projects	1,987	1,877	2,118	843	-
	Community Water supply to selected villages in Matale, Kandy, Nuwara Eliya, Kurunegala, Badulla, Hambantota, Ratnapura Gampaha, Matara & Anuradhapura Districts	1,416	2,307	1,735	1,140	120
	Water Supply to Eastern Coastal Towns of Ampara District	1,355	2,080	4,675	4,500	2,700
	Secondary Towns & Community Water Supply - Muttur, Batticaloa, Hambantota, Anuradhapura & Polonnaruwa	684	2,770	3,300	3,650	3,500
	Improvement of Water Supply, Drainage, Sewerage and urban Roads in Local Authority Areas	61	850	1,204	1,262	1,395
Housing	Estate Housing	574	1,250	500	1,000	1,000
	Diyawara Gammana- Fisheries Housing	-	150	250	300	300
	North East Housing	2,077	3,000	2,305	263	-
	Puttlam Resettlement Housing	-	1,500	1,500	1,700	-
Community Development	North East Community Restoration project	483	967	690	590	-
	North East Coastal Community Development	147	589	485	700	205
Health	Infrastructure Development of 17 Hospitals in Less Privileged Areas	-	90	70	30	-
	Health Sector Development - Provincial Health Care Programmes	1001	922	959	964	964
	Osu Gammana	44	47	40	35	20
Education	Upgrading physical facilities in provincial schools	880	880	990	990	990
	Provision of computers to 4000 provincial schools	-	-	785	2,025	4,500

Art - Culture - Religion

Performing Art Theatre at Nomads Place, Colombo	-	5	410	300	300
Kundasale Kala Nikethana	-	10	100	120	-
Completion of National Museum at Seegiriya	31	112	260	10	10
Mathata Thitha	-	20	40	50	55

Governance

Fiscal Reforms Management Project	162	1,306	1,550	1,000	1,000
Electronic Birth, Death and Marriage	-	-	50	75	100

Certificates

Judicial Reforms Project	560	74	1,400	1,000	1,000
Construction of new court complexes -at Nawalapitiya, Horana, Gangodawila, Nuwara Eliya, Negombo, Tangalle & Marawila	-	-	750	300	250
Relocation of Bogambara Prison	-	200	360	360	360

Science, Technology, Research & Development

Setting up a Nano Technology Institution	-	-	300	100	100
Multipurpose Irradiator Programme	-	130	340	50	17
e-Sri Lanka Project	422	1,500	1,435	460	255

* *Projections*

List of Documents

1. **Fiscal Management Report – 2008** (Tabled)
Department of Fiscal Policy
2. **Partnership for Accelerated Growth** (Tabled)
Department of External Resources
3. **Recent Economic Development Highlights of 2007
and Prospects for 2008** (Tabled)
Central Bank of Sri Lanka
4. **Randora – National Infrastructure Development
Programme** (Tabled)
Department of National Planning

Summary of the Budget

	Rs. Bn.		
	2006	2007 Revised	2008 Budget
Total Revenue	477.83	605.31	750.74
Tax Revenue	428.38	541.45	677.32
Income Tax	80.48	113.82	143.29
Taxes on Goods and Services	289.34	354.02	441.22
Taxes on External Trade	58.55	73.60	92.81
Non Tax Revenue	49.46	63.86	73.42
Total Expenditure	713.64	861.95	1044.18
Recurrent	547.96	630.22	712.88
Personnel Emoluments	175.03	214.42	233.39
Interest	150.78	171.42	209.83
Subsidies and Transfers	144.15	140.27	159.22
Other Goods and Services	77.99	104.11	110.46
Public Investment	177.44	233.46	335.67
Other	(11.76)	(1.73)	(4.38)
Revenue Surplus/Deficit	(70.12)	(24.92)	37.86
Budget Deficit	(235.81)	(256.65)	(293.44)
Total Financing	235.81	256.65	293.44
Total Foreign Financing	72.00	150.63	138.64
Net Foreign Financing	41.94	124.30	109.89
Foreign Borrowings Gross	87.92	184.34	214.21
Debt Repayment	45.99	60.04	104.32
Foreign Grants	30.07	26.32	28.75
Total Domestic Financing	163.81	106.02	154.80
Net Non Bank Financing	83.80	116.02	145.80
Net Foreign Currency Domestic Financing	41.12		
Net Bank Borrowings	38.88	(10.00)	9.00
Revenue/GDP %	16.3	17.1	18.0
Tax Revenue/GDP %	14.6	15.3	16.2
Expenditure/ GDP %	24.4	24.3	23.7
Recurrent Expenditure/ GDP %	18.7	17.8	17.1
Public Investment/ GDP %	6.1	6.6	8.0
Revenue Deficit/ GDP %	(2.4)	(0.7)	0.9
Budget Deficit/ GDP %	(8.1)	(7.2)	(7.0)
Budget Deficit - Excluding Fully Foreign Funded Development Projects	(214.22)	(224.55)	(237.68)
As a % of GDP	(7.3)	(6.3)	(5.7)

