

CHANGES TO BUDGET PROPOSALS 2016

In the Honorable Prime Minister's speech in parliament on the 8th of March 2016, proposals were made with an objective of increasing government tax revenue. In November 2015, the new budget proposed a few changes in relation to VAT and NBT. The implementations of these were subsequently withheld in January 2016. The new proposals are mainly targeted to giving legal implication to the withheld VAT and NBT in January and the change of corporate and personal taxation. In addition to the above changed, A Capital Gains Tax is also proposed as a new avenue of government income.

1. Personal Taxation

In the 2016 Budget proposal it was proposed to increase the Tax Free allowance to Rs 2.4 Mn per annum and to tax any income above the Tax Free allowance at 15%. This proposal will NOT be implemented. The existing personal tax system will continue to be applicable.

i. Employment Income liable under PAYE Scheme

Employment Income	Tax Rate
First Rs 750,000	Exempt
Next Rs 500,000	4%
Next Rs 500,000	8%
Next Rs 500,000	12%
Balance	16%

ii. Taxable income of Professionals

Employment Income	Tax Rate
First Rs 500,000	Exempt
Next Rs 500,000	4%
Next Rs 500,000	8%
Next Rs 25,000,000	12%
Next Rs 10,000,000	14%
Balance	16%

iii. Taxable income of other persons

Employment Income	Tax Rate
First Rs 500,000	Exempt
Next Rs 500,000	4%
Next Rs 500,000	8%
Next Rs 500,000	12%
Next Rs 5,00,000	16%
Next Rs 1,000,000	20%
Balance	24%

2. Corporate Income Tax Rate

In the 2016 Budget Proposal, it was proposed to introduce a two band income tax rate of 15% and 30 %. Banking and financial services, insurance and wholesale and retail trade will be liable to income tax at the rate of 30% whilst all other sectors such as manufacturing, agriculture, SME and all other services will be liable to income tax at the rate of 15%.

However the new proposal is as follows,

- Tourism, construction, agriculture, exports and SME which were earlier liable at 10% and 12% will increase to **17.5 %**.
- Liquor and tobacco will be at **40%**
- All other sectors will remain at **28%**.

3. Value added Tax (VAT)

Proposed two band rate of 8% and 12.5 % in the 2016 Budget proposal will NOT be implemented. Instead the VAT rate will be increased to 15%.

The following exemptions currently available will be removed and become liable at 15% rate.

- a) Telecommunication services
 - b) Private education
 - c) Private health care
- It has also been proposed to impose VAT on retail and wholesale sector excluding essential items.
 - Currently retail and wholesale sector is liable to VAT only where the annual turnover exceeds Rs. 400 million.

- It is expected that the current threshold will be reduced to a lower level in order to attract a larger segment of wholesale except on certain essential items.

4. Nation Building Tax (NBT)

Proposal to increase of NBT rate to 4% in the 2016 Budget will NOT be implemented and therefore the current rate of 2% will continue. However, the following exemptions will be removed.

- a) Electricity
- b) Lubricants
- c) Telecommunication services

Threshold for NBT will be reduced to Rs. 3 million from Rs. 3.75 million per quarter.

5. Capital Gains Tax

It has been proposed to reintroduce tax on capital gains. Tax on capital gains from sale of shares quoted in the Colombo stock exchange was abolished in 1987 while tax on capital gains arising on other assets were abolished in 2002.

The methodology of taxation of capital gains and the rates of tax under such proposal are yet to be announced.

Effective date

It is not certain as to when the above proposals will be given legal effect. It is expected however that all of the above proposals will be implemented from ***1st April 2016*** and the necessary legislation will be presented subsequently to bring legal effect.