BOX 13

Major Economic Policy Changes and Measures: 2012[1]

Real Sector

12 February 2012 - The retail prices of petroleum products were increased as follows:

- Petrol by Rs. 12 to Rs.149 per litre
- Diesel by Rs. 31 to Rs.115 per litre
- Kerosene by Rs. 35 to Rs.106 per litre

14 February 2012 - Passenger bus fares were increased by an average of 20 per cent.

16 February 2012 - A Fuel Adjustment Charge (FAC) was imposed on the monthly electricity bill at the following rates:

Sector	FAC (%)
Domestic Consumers	
0-30 (units/month)	25
31-60 (units/month)	35
above 60 (units/month)	40
Industries	15
Hotels	15
General Purpose	25

04 May 2012 - The maximum retail price of a 400 g full cream milk powder packet was increased by Rs. 61 to Rs. 325 and the maximum retail price of a 1 kg full cream milk powder packet was increased by Rs. 163 to Rs. 810.

- The price of a 12.5 kg cylinder of LP gas was increased by Rs. 350 to Rs. 2,396.

14 July 2012 - The price of a 12.5 kg cylinder of LP gas was reduced by Rs.150 to Rs. 2,246.

01 October 2012 - Water tariffs of domestic consumers were revised upward by an average of 60 per cent.

15 December 2012 - The retail price of petrol was increased by Rs.10 to Rs. 159 per litre.

06 January 2013 - The price of a 12.5 kg cylinder of LP gas was increased by Rs. 150 to Rs. 2,396.

23 February 2013 - The retail prices of petroleum products were increased as follows:

- Petrol by Rs. 3 to Rs.162 per litre
- Diesel by Rs. 6 to Rs.121 per litre

External Sector

Trade and Tariff

01 January 2012 - Importation of aircrafts, ships, artificial limbs, crutches, wheel chairs, hearing aids, accessories for such aids, white canes for the blind, braille typewriters and parts, braille writing papers and boards, timber logs, yarn except sewing thread and vegetable fibre based yarn and fabric were exempted from Nation Building Tax (NBT).

1 This includes major economic policy changes and measures implemented during 2012. Policy changes and measures that have been implemented during the first three months of 2013 and to be implemented in 2013 are also included.

- Following items were exempted from Value Added Tax (VAT).
  - importation of speakers and amplifiers, digital stereo processors and accessories, cinema media players and digital readers
  - importation of green houses, poly tunnels and materials for the construction of green houses and poly tunnels by the growers
  - import or the supply of lorries, trucks, buses, sports equipment, machinery used for the production of rubber and plastic products, wood sawn, sunglasses, perfumes, mammoties, forks, moulding (steel, glass, rubber and plastic), items and spare parts needed in the poultry industry, photo sensitive semi–conductor devices, raw materials exclusively used for the manufacture of spectacles and spectacle frames

13 January 2012 - Special Commodity Levy (SCL) on the importation of the following food items was increased /imposed for a period of four months.

Item	Existing Rate	Revised Rate
Sugar	Rs. 05/kg	Rs. 10/kg
Masoor dhal-whole	Rs. 10/kg	Rs. 18/kg
Masoor dhal-split	Rs. 15/kg	Rs. 22/kg
Garlic	Rs. 25/kg	Rs. 40/kg
Peas - whole	Rs. 10/kg	Rs. 15/kg
Peas - split	Rs. 15/kg	Rs. 20/kg
Fresh or chilled and frozen fish	-	30% of CIF or Rs. 35/kg, whichever is higher
Soya-bean,Palm,Sunflower seed - crude oil	-	Rs. 65/kg
Soya-bean oil, Palm oil, Sun-flower oil and Coconut oil	-	Rs. 75/kg

13 February 2012 - The full customs duty waiver granted on the importation of petrol was reduced to Rs. 23 per litre from Rs. 35 per litre while the duty waiver on the importation of diesel was reduced to Rs. 13 per litre from Rs.15 per litre. Accordingly, the applicable customs duty rates on petrol and diesel are Rs. 12 per litre and Rs. 2 per litre respectively.

02 March 2012 - The SCL on the importation of potatoes was increased from Rs. 20 per kg to Rs. 30 per kg.

22 March 2012 - SCL on the importation of the following food items was increased for a period of nine months.

Item	Existing Rate	Revised Rate
Green gram (Moong)	Rs. 50/kg	Rs. 75/kg
Mandarin - fresh	Rs. 35/kg	Rs. 50/kg
Kurakkan	Rs. 75/kg	Rs. 100/kg

31 March 2012	-	Customs duty rates applicable on the importation of motor vehicle spare parts, cut parts of motor vehicles, and bodies was revised to charge the highest value out of the unit value or percentage value.
	-	Maximum age limit of motor vehicles under H S heading 87.03 and 87.02 (except for buses) eligible for importation was reduced to one year and for H S heading 87.04 the age limit was reduced to three and a half years.
10 April 2012	-	SCL on the importation of dried sprats, red onion, b'onion, chick peas, chillies and canned fish was extended for a period of four months.
04 May 2012	-	Customs duty waiver of 15 per cent or Rs. 33 per kg was granted on the importation of milk powder. Accordingly, the applicable duty rate is 15 per cent or Rs. 92 per kg.
12 May 2012	-	SCL on the importation of the following food items was increased for a period of nine months.

Item	Existing Rate	Revised Rate
B' onion	Rs. 25/kg	Rs. 35/kg
Peas – whole	Rs. 15/kg	Rs. 20/kg
Peas – split	Rs. 20/kg	Rs. 25/kg
Green gram (Moong)	Rs. 75/kg	Rs. 100/kg
Chilies – neither crushed nor ground	Rs. 20/kg	Rs. 25/kg
Millet - other	Rs. 75/kg	Rs. 100/kg
Soya-bean,Palm-oil, Sunflower seed - crude oil	Rs. 65/kg	Rs. 80/kg
Soya-bean oil, Palm oil, Sunflower oil and Coconut oil	Rs. 75/kg	Rs. 90/kg

	-	SCL on the importation of mandarin under H S Code 0805.20.10 was removed and customs duty and other applicable taxes and levies were re-imposed.
20 June 2012	-	SCL on the importation of sugar was increased from Rs. 10 per kg to Rs. 20 per kg.
28 June 2012	-	Cess on the importation of vegetables, preserved garlic, onions, other fresh mandarins and wheat was increased.
	-	Cess on the importation of bars and rods, wires, tubes and pipes of iron or non-alloy steel was imposed.
14 July 2012	-	SCL on the importation of the following food items was reduced for a period of three months.

Item	Existing Rate	Revised Rate
Fresh or chilled and frozen fish	30% of CIF or Rs. 35/kg, whichever is higher	10% of CIF or Rs. 10/kg, whichever is higher
Sprats	Rs. 30/kg	Rs. 10/kg
Potatoes	Rs. 30/kg	Rs. 10/kg
Dried fish	Rs. 100/kg	Rs. 75/kg
B' onion	Rs. 35/kg	Rs. 25/kg
Canned fish	Rs. 85/kg	Rs. 50/kg

13 August 2012 - SCL on the importation of the following food items was increased for a period of four months.

Item	Existing Rate	Revised Rate
B' onion	Rs. 25/kg	Rs. 50/kg
Potatoes	Rs. 10/kg	Rs. 30/kg

03 September 2012 - Cess on the importation of preserved garlic, bars and rods of iron or non-alloy steel was exempted.

- Cess on the importation of all ceramic articles was increased.

18 September 2012 - SCL on the following food items was increased for a period of three months.

Item	Existing Rate	Revised Rate
Potatoes	Rs. 30/kg	Rs. 50/kg
Canned fish	Rs. 50/kg	Rs. 75/kg

09 November 2012 - SCL on the following food items was increased/ imposed for a period of four months.

Item	Existing Rate	Revised Rate
Maldives fish	Rs.250/kg	Rs.275/kg
Black gram	Rs.100/kg	Rs.110/kg
Grapes - fresh	Rs.120/kg	Rs.130/kg
Chilies - crushed or ground	Rs.40/kg	Rs.150/kg
Chilies - other	-	Rs.150/kg
Seeds of coriander - crushed or ground	Rs.90/kg	Rs.200/kg
Seeds of cumin	Rs.150/kg	Rs.160/kg
Turmeric - other	Rs.300/kg	Rs.500/kg
Ground nut - shelled	Rs.100/kg	Rs.110/kg
Mustard seeds	Rs.50/kg	Rs.60/kg
Soya-bean oil, palm oil, sunflower oil and coconut oil	Rs.90/kg	Rs.110/kg
Canned fish	Rs.75/kg	Rs.100/kg

- Customs duty waiver on the importation of milk powder was reduced to 15 per cent or Rs. 18 per kg. Hence the applicable duty rate was 15 per cent or Rs. 107 per kg.
- Customs duty on the importation of maize starch, molded or pressed articles of paper pulp and coated papers-printing or graphic purposes was reduced.
- Customs duty on the importation of structure and parts of structure (Iron or steel), beer made form malt, spirit, spirits obtained by distilling grape wine or grape marc, whiskies, rum, gin & geneva, vodka, liquors and cordials was increased.
- Customs duty was introduced on importation of pneumatic tyres of rubbers, wet cleansing tissues and day lighting devices which capture sunlight transfer & diffuse light in a building interior.
- Importation of water less urinals glass beads and polyester resin was exempted from customs duty.

	-	Importation of solar panel modules, accessories or solar home systems, medical equipment donated to an institution which provides free healthcare services and coal was exempted from Port and Airport Development Levy (PAL).
	-	PAL on consumables for the textile & apparel industry was reduced to 2.5 per cent.
	-	Cess on exportation of cinnamon, cloves, natural sands, quartz, clay, phosphate, stones (Emery, corundum, gravel, pebbles), mica, steatite, other minerals, ilmanite, rutile, titanium, zirconium, niobium, tantalum and vanadium was increased.
	-	Cess on importation of groats and meal of maize, natural honey was exempted.
	-	Cess on importation of water less urinals and jute fabrics was reduced.
	-	Cess on importation of taxi meters, radiators and parts, aluminum wire, gauze and bandage, wet cleansing tissues, putty, lubricants and honey and jaggery was imposed.
	-	Cess on importation of dairy products, birds' eggs, edible products of animal origin, cut flowers and flower buds, foliage, fresh/preserved/dried vegetables and fruits, other vegetable and fruit products, edible oils, margarine, sausages and preserved meat products, confectioneries, bakery products, food preparations, mineral water, vinegar, salt, soap, adhesives, handles for toothbrushes, tyres for cars and light truck, soap wrappers, fabrics, steel and prefabricated buildings was increased.
	-	Importation of a "Go-cart", classified under racing cars, was exempted from Excise duty.
	-	Excise duty on trishaws, motor cars (less than 1,000 cc), trucks, single cabs, aerated water, pipe tobacco and hearses was increased.
08 December 2012	-	SCL on the importation of the following food items was reduced for a period of two months.

Item	Existing Rate	Revised Rate
Potatoes	Rs. 50/kg	Rs. 15/kg
Red onion	Rs. 25/kg	Rs. 15/kg
B' onion	Rs. 50/kg	Rs. 15/kg

01 January 2013	-	Importation of bulldozers, graders, levelers, excavators, raw materials for the manufacture of energy saving bulbs, road tractors for semi-trailers, bowsers, fire fighting vehicles were exempted from VAT.
	-	Importation of solar panel modules, accessories or solar home systems for the generation of solar power energy, coal, goods for any international sports event approved by the Minister of Finance and gems subject to Special Service Fee including any subsequent sales of such gems as processed gems were exempted from NBT.
	-	NBT on local sales of imported gems without any processing (imposed in lieu of Turnover Tax) remained taxable.
08 February 2013	-	SCL on the importation of the following food items was introduced for a period of four months.

Item	Rate
Palm kernel or babassu oil and fractions thereof : Crude oil	Rs. 110/kg
Other	Rs. 115/kg

Foreign Exchange Management

01 March 2012	-	Authorised Dealers were directed that they should conform to certain prudential requirements stipulated by the Exchange Control Department in relation to forward contracts in foreign exchange that Authorised Dealers enter into with their customers.
01 June 2012	-	Authorised Dealers were informed that they should not permit payments for foreign exchange trading through Electronic Funds Transfer Cards (EFTC) or by any other mode of payments and they should exercise due diligence and be vigilant to prevent such payments.
19 June 2012	-	Authorised Dealers were permitted to extend loans in Sri Lanka rupees to Sri Lankans employed abroad to be utilised for any purpose within Sri Lanka subject to certain terms and conditions.
11 July 2012	-	A new direction was issued relating to the operation of Non Resident Foreign Currency (NRFC) and Resident Foreign Currency (RFC) accounts permitting transfer of funds between NRFC accounts, RFC accounts and from NRFC accounts to RFC accounts in a flexible manner.
	-	A new foreign currency account named "Foreign Exchange Earners' Account (FEEA)" was introduced by unifying several existing foreign currency accounts maintained by foreign exchange earners.
07 September 2012	-	The regulations relating to export and import of Sri Lanka currency were amended by increasing the limit from Rs. 5,000 to Rs. Rs. 20,000 per person.
02 October 2012	-	Authorised Dealers were requested to inform on a daily basis on each working day, the maximum foreign exchange rate offered to authorised money changers for each of the designated foreign currencies.
29 November 2012	-	The directions issued to authorised dealers on issuance and renewal of Bank Guarantees were amended by introducing six different guarantee categories.
20 December 2012	-	A gazette notification was issued stipulating terms and conditions pertaining to the usage of EFTC for making payments in foreign exchange to a person resident outside Sri Lanka amending the gazette notification previously issued in this regard.
31 December 2012	-	As a measure of conveniently and economically providing for the remittance of earnings of groups of persons employed abroad, a new account named "Inward Remittances Distribution Account (IRDA)" was introduced and the same can be used as a clearing account to disburse earnings of persons who are providing services abroad in seagoing vessels/ships, commercial aircrafts as well as those who are providing construction, janitorial, health, security, accounting, legal and other services in foreign countries.
01 January 2013	-	Authorized Dealers were issued new directions on Securities Investment Account (SIA) in order to simplify the mechanism related to investments and transactions in Sri Lanka by non-residents. Authorized Dealers were further instructed to re-designate all existing Rupee Accounts for Non Resident Sri Lankan Investment (RANSI) as SIA.
	-	Authorized Dealers were informed that FEEA may be opened in the form of current, savings or term deposits in any foreign currency.
	-	A general permission was granted to borrow from a person resident outside Sri Lanka, under the External Commercial Borrowing Scheme (ECBS) subject to certain conditions.
	-	A general permission was granted to a person resident in Sri Lanka to accept payments in foreign currency in respect of goods and services supplied by such person to a person resident outside Sri Lanka.

02 January 2013	-	The time restrictions on forward contracts entered into by Authorized Dealers with their customers was amended.
	-	Transfer of funds from a SIA to the credit of a NRFC account of the same account holder was permitted.
	-	Transfer of funds from a SIA to the credit of a Special Foreign Investment Deposit Account (SFIDA) of the same account holder was permitted.
	-	Transfer of funds from a SIA to the credit of a Resident Non National Foreign Currency (RNNFC) account of the same account holder was permitted.
	-	Transfer of funds from a SIA to the credit of a Non Resident Non National Foreign Currency Account (NRNNFA) of the same account holder was permitted.
04 January 2013	-	A general permission was granted for the issue and transfer of Sri Lankan Rupee denominated redeemable preference shares to approved country funds, approved regional funds, corporate bodies incorporated outside Sri Lanka and individuals resident outside Sri Lanka subject to certain conditions.
23 January 2013	-	The direction issued on Inward Investment Account (IIA) was rescinded.
24 January 2013	-	Authorized Dealers were directed that they may open FEEA, in the name of eligible borrowers who have borrowed under the ECBS.
30 January 2013	-	The general permission that has been granted to persons in Sir Lanka for making payments in Sri Lankan Rupees to non-resident Sri Lankans as consideration for the purchase of real estate properties in Sri Lanka owned by such non-resident Sri Lankans and the permission that has been granted to Authorized Dealers to open Non Resident Blocked Accounts in the name of non-resident Sri Lankans who sell real estate properties in Sri Lanka were extended to non-resident persons with Sri Lankan origin.
31 January 2013	-	A general permission was granted for the issue and transfer of units in a Unit Trust to foreign institutional investors, corporate bodies incorporated outside Sri Lanka and individuals resident outside Sri Lanka subject to certain conditions.
Forthcoming		
	-	Increase the current limit on overseas investments by residents.
	-	Promote foreign currency accounts of residents and local currency investment accounts of non - residents in commercial banks in Sri Lanka.
	-	Introduce a criterion for permitting non - banking entities to engage in foreign currency deposits business.
	-	Listing of foreign corporate shares in Sri Lanka and Sri Lankan corporate shares in exchanges abroad.
	-	Facilitate inward remittances through mobile phones.
	-	Promote foreign currency changing through ATM at commercial banks.
	-	Facilitate fund transfers between shipping companies, port operations and harbor services.
	-	Implement new policy framework for remittance of income of emigrants.
	-	General permission for accepting foreign currency in business transactions with non-residents.

Fiscal Sector

Government Revenue

01 January 2012

- The supply of following items were exempted from VAT.
  - locally manufactured hydropower machinery and equipment, products manufactured using locally procured raw materials for tourist hotels and airlines, canned fish, turbines, specified products to identified state institutions replacing imports and pottery products
  - Research and development services, by the department of commerce and paintings by artists.
  - The value addition attributable to a Unit Trust or a Mutual Fund from interest, dividend or dealing in debt instruments
- Wholesale or retail sale of goods to exporters, fresh milk, green leaf, cinnamon, rubber (latex, crepe or sheet rubber), petrol, diesel or kerosene in a filling station, sale of locally manufactured clay roof tiles and pottery products by the manufacturer, sale of paintings by artists were exempted from NBT.
- International Telecommunications Operator Levy on outgoing international calls was increased from Rs. 2 per minute to Rs. 3 per minute.
- International Telecommunications Operator Levy on incoming international calls was increased from US Dollars 0.07 per minute to US Dollars 0.09 per minute.

31 March 2012

- Excise duty on the importation of motor vehicles, trishaws and motor cycles was increased.
- Excise duty on hard liquor and malt liquor was increased by Rs. 60 per proof litre and Rs. 5 per bulk litre respectively.
- Excise duty on cigarettes was revised upwards based on their length.

01 April 2012

- The exemption of income tax available to manufacturing products was extended to new enterprises engaged in agriculture and agro processing, animal husbandry and processing, fisheries and fish processing, information technology, business or knowledge process outsourcing, health care, education, beauty care, cold room and storage, tourism, creative work including art work, sports and fitness centres based on the scale of business and size of investment.
- Investments (not less than Rs. 50 million) by existing enterprises prior to 31 March 2015 for expansion of the business can be treated as a qualifying payment deductible from the assessable income of the enterprise subject to a maximum of 25 per cent of the investment for each year of assessment falling within the period of 4 years commencing from the year of investment.
- A 5 year tax holiday followed by a concessionary corporate income tax rate for new enterprises and a concessionary income tax rate for a period of 5 years coupled with qualifying payment relief for existing enterprises was granted for investments made in the production of cement, pharmaceuticals, fabric and milk powder.
- VAT, Customs duty, Cess and PAL on the importation of plant, machinery or equipment by enterprises were allowed to be defered during the project implementation period.
- The profits and income (other than dividends and interest) of The Institute of Certified Management Accountants of Sri Lanka and income of the Child Protection Authority were exempted from income tax.

	- Royalties received from outside Sri Lanka and remitted to Sri Lanka through a bank, profits and income from the redemption of a unit of a unit trust or a mutual fund, interest accruing to any person or partnership outside Sri Lanka on a loan granted to any person or partnership in Sri Lanka, profits and income from the administration of any sports ground, stadium or sports complex, profits and income of a trainer of any sport, being a non-citizen individual who is brought to Sri Lanka for that purpose were exempted from income tax.
	- Income tax on profits and income of a newly set up branch of a commercial bank dedicated to development banking reduced to a lower rate of 24 per cent.
	- The tax rate for the profits and income from the activities carried out as research and development by a person other than a company was reduced to a maximum rate of 16 per cent and in the case of a company the rate reduced to 20 per cent.
	- The tax rate of 12 per cent was extended to a grower cum manufacturer or a manufacturer of tea, who establishes a joint venture with a tea exporter for the purposes of exporting pure Sri Lankan tea (Ceylon Tea), in value added form, with a Sri Lankan brand name, on the manufacturing income attributable to the quantum of tea purchased for that purposes by the joint venture.
	- The maximum rate of income tax applicable on the profits and income of a person or partnership from the local manufacture of handlooms products was reduced to 12 per cent.
	- The rate of tax applicable on the profits and income of the health care services was reduced to a maximum of 12 per cent.
	- Cost of any high tech plant, machinery or equipment, travelling expenses incurred by an employer in any motor vehicle used by an employee, travel expenses incurred in relation to the services of design development, product development or product innovation and maintenance expenses incurred by any person in any sports ground, stadium or sports complex was allowed to be deducted when ascertaining the profits and income.
	- All yarn except sewing thread and vegetable fibre based yarn exempted from all taxes.
	- The chargeability to Economic Service Charge (ESC) was simplified by removing the liability to ESC on the turnover of any business of which the profits are subject to Income Tax.
	- Sale of locally manufactured clay roof tiles and pottery product by the manufacturer was exempted from ESC.
	- The threshold of ESC was expanded from Rs. 25 million to Rs. 50 million per quarter.
06 October 2012	- The Excise duty on cigars, cigarettes, liquor and ethyl alcohol has been increased.

01 January 2013	- The supplies and turnover made by the following institutions were exempted from VAT and NBT:
	  - Central Bank of Sri Lanka (CBSL) (including the VAT on Financial services)
	  - Any Public Corporation to the extent of provision of services on behalf of the Government, free of charges out of the funds voted by the Parliament from the Consolidated Fund or out of any loan arranged through the Government

	- The supply of services to a Unit Trust by the Unit Trust management company was exempted from VAT.

- The supply of hotel accommodation to any sportsman, organizer of any sport event or sponsor arriving in Sri Lanka for participating in any sport event or activity connected with sport was exempted from VAT.
- Locally manufactured products out of coconut waste (coco peat, coir fiber, grow pellets, grow bags, twist fiber, coconut husk) were exempted from VAT.
- VAT was introduced for wholesale and retail trade. Accordingly, any person or a partnership engaged in a business of wholesale or retail sale and making supplies (including exempt or excluded supplies) exceeding Rs. 500 million per quarter was liable to registered for VAT. However, VAT is chargeable only for liable supply.
- Instrument of transfer of stocks transferred by any person to a margin trading account (slash account) and vise versa was exempted from Stamp duty.
- Stamp duty on the following instruments increased as follows:

Instrument	Existing Rate	New Rate
Affidavit	Rs. 25	Rs. 250
Policy of insurance	Rs.0.50 for every Rs.1,000 or part thereof of the aggregate of the premier payable on the policy	Rs.1 for every Rs.1,000 or part thereof of the aggregate of the premier payable on the policy
Notary warrant	Rs. 1,000	Rs. 2,000
Periodic License to carry on Trade business etc.	Rs.1,000 or 10% of license fee whichever is less	Rs. 2,000 or 10% of license fee whichever is less
Periodic License for sale of liquor	Rs. 10,000	Rs. 20,000
Demand for payment on usage of a credit card	Rs. 10 for every Rs.1,000 or part thereof	Rs. 15 for every Rs. 1,000 or part thereof

- The Embarkation Levy was increased to US Dollars 25 from US Dollars 10 while the online Visa fee was increased by US Dollars 5.
- The present 20 per cent rate of Telecommunication Levy was reduced to 10 per cent for internet broadband connections.
- The present tax structure of the business of Betting and Gaming was revised upwards.
- Taxes on export oriented companies which sell manufactured goods to the local market were revised as follows:
  - Export oriented enterprises engaged in manufacturing of garments or ceramic products, were permitted to increase their domestic sales up to 40 per cent subject to VAT and NBT in lieu of all the indirect taxes payable on sale.
  - The piece based tax of Rs. 25 per piece applicable on garments sale was removed.
  - The income tax on the profits and income from sale (both export and local market) was at the concessionary rate of 12 per cent.

- Any person or partnership, with an annual liable turnover/ supplies not exceeding Rs.12 million, from all the businesses carried on by such person or partnership was not liable to pay VAT and NBT including NBT on whole sale or retail business.

Forthcoming

1 April 2013

- Profits and income (other than dividends and interest) of the following institutions will be exempted from income tax:
    - College of General Practitioners of Sri Lanka
    - Sri Lanka Social Security Board
    - Provision of services free of charge by public corporation out of the funds from the consolidated fund or out of any loan arranged by the Government
    - Sri Lanka Savings Bank which is merged with the National Development Trust Fund.
- Profits and income from the following will be exempted from income tax:
    - profits and income from any off-shore business where goods are procured from one country and transported to another country other than Sri Lanka
    - royalties, franchising fee or any payment for designing made to any foreign collaborator by a Board of Investments (BOI) registered company during the period of tax holiday, where the foreign direct investments raised outside Sri Lanka exceed US Dollars 50 million, if such services are essential in carrying out activities in Sri Lanka and not obtainable in Sri Lanka
    - profits and income of any Government assisted private school which is not established under the Companies Act and registered with the Ministry of Education
    - interest income from investments made on or after January 2013 in Corporate Debt Securities (quoted in any Stock Exchange) or municipal bonds issued with the approval of the General Treasury
    - profits and income (except income from dividends and interest) of Lanka Puthra Development Bank
    - income from emoluments arising in Sri Lanka of any individual who is not a citizen of Sri Lanka and brought to Sri Lanka by a BOI registered company during the period of tax holiday where the total investment made is out of foreign direct investments exceeding US Dollars 50 million.
    - income from loans taken from persons outside Sri Lanka.
    - profits and income of an undertaking from cultivation of renewable energy crops in agricultural lands.
- The following tax concessions will be provided to Sri Lankan citizens earning outside Sri Lanka :
    - 183 days rule will only be applied in deciding residency of an individual
    - the profit and income derived from a source outside Sri Lanka by an individual will be exempted if such income is remitted to Sri Lanka through a bank in Sri Lanka.
    - extending the present exemption on profits and income derived from outside Sri Lanka applicable to dual citizens who arrive and stay in Sri Lanka, to individuals

who have obtained permanent resident status in any other country or any similar status in which such individual obtains the citizenship in Sri Lanka and any other country.

- Concessionary income tax rates will be applicable on the following:
    - rate in relation to unit trust management companies will be reduced to 10 per cent from the current rate of 28 per cent.
    - the maximum rate of income tax applicable to pilots on the profits from employment and qualified employees providing professional services to persons out of Sri Lanka reduced to 16 per cent.
    - the maximum rate of income tax applicable on employment income being compensation for loss of employment which is not uniformly applicable to all the employees reduced to 16 per cent.
    - reducing the tax rate on profits from poultry farming to 10 per cent.
    - treating supply of goods manufactured in Sri Lanka or provision of services, to foreign ships for payments in foreign currency as deemed exports and taxing the profit and income there from, subject to the concessionary rate of 12 per cent.
    - treating the sale of any product manufactured in Sri Lanka for payment in foreign currency through foreign exchange earning account authorized by the CBSL as deemed exports and taxing the profits and income there from, subject to the concessionary rate of 12 per cent.
    - classifying "Organic tea in bulk" as non-traditional goods, for the application of the concessionary rate of 12 per cent.
    - increasing the annual turnover of Rs. 300 million to Rs. 500 million for the application of the concessionary rate of 10 per cent for any undertaking engaged in the manufacture of any article or in the provision of any service.
    - reducing tax payable by any company listing its shares on or after 01.04.2013, and more than 20 per cent of its shares are issued to general public, by 50 per cent for the year of assessment in which such shares are listed and for the 2 years of assessment immediately succeeding that year of assessment.
    - the profit and income of any person or partnership from operating any mini hydro power project or other alternative energy source will be taxed at a rate of 12 per cent.
- Considering cost of acquisition of any plant, machinery or equipment of/for the following industries/activities as an allowance for depreciation:

Activities / Industries	Allowable Rate
technology upgrading or introducing any new technology	50% per year
providing more than 30% of the total requirement of the power generation out of alternative energy resources	100%
the establishment of Broker Back Office system to be compliant with the Colombo Stock Exchange (CSE) requirements	100%
any export industry	50% per year

- Extending the triple deduction allowed for expenditure on research and development carried out through the Government institutions to such expenditure incurred on research carried out through private institutions.
- Making the following provisions in relation to interest income on Corporate Debt Securities not exempt from income tax :
    - deduction in the full interest for the respective period at the time of issue, or where the security is issued with floating rate of interest, at the time beginning of each reviewing period.
    - where no deduction has been made up from front, deduction at the time of payment of interest (payable on or after April 1, 2011).
- Reducing the present time bar period applicable for income tax from two years to 18 months.
- Exempting the CBSL from ESC.

Government Expenditure

01 January 2012 - The Special Allowance for all public sector employees (staff and non-staff grade) was increased by 10 per cent. Total increase for non-staff grade employees and 50 per cent of the increase for staff grade employees was effective from January 2012 and the balance 50 per cent for the staff grade will be effective from 1 July 2012.

- Various allowances paid to Grama Niladaries, members of the judiciary, doctors, engineers and university staff, were revised upwards.
- The monthly pension of persons who retired prior to 31 December 2003 was increased by Rs. 1,000 per month while it was increased by Rs. 500 per month for pensioners who retired during the period from 01 January 2004 to 31 December 2005.

13 February 2012 - A subsidy of Rs. 25 per litre and Rs. 12 per litre was granted to kerosene fishing boats and diesel fishing boats, respectively.

15 February 2012 - A kerosene subsidy of Rs. 200 per month was provided to all households without electricity.

01 April 2012 - The Samurdhi allowance paid to low income families was increased as follows:

Previous Allowance	New Allowance
Rs. 250 - Rs. 615	Rs. 750
Rs. 900	Rs. 1,200
Rs. 1,500	Rs. 1,500

Monetary Sector

03 February 2012 - The Central Bank's Repurchase rate and Reverse Repurchase rate were increased by 50 basis points each to 7.50 per cent and 9.00 per cent respectively.

09 February 2012 - The Central Bank decided to move away from a price based intervention strategy and allow more flexibility in the exchange rate and limit market intervention through a quantity based strategy.

12 March 2012	-	Licensed banks were required to limit the growth of their rupee denominated credit in 2012 to 18 per cent or Rs. 800 million, whichever is higher, whilst allowing a growth of 23 per cent or Rs. 1 billion, whichever is higher, for those banks raising funds from overseas to fund the additional growth of credit.
15 March 2012	-	Daily access to the Repo standing facility was limited to Rs. 100 million per participating institution, on days when the Central Bank conducts the Reverse Repo auction.
05 April 2012	-	The Central Bank's Repurchase rate was further increased by 25 basis points to 7.75 per cent and the Reverse Repurchase rate was increased by 75 basis points to 9.75 per cent.
12 December 2012	-	The Central Bank's Repurchase rate and Reverse Repurchase rate were reduced by 25 basis points each to 7.50 per cent and 9.50 per cent, respectively.
31 December 2012	-	The ceiling on credit growth imposed on licensed banks was allowed to expire.

Financial Sector

Licensed Banks

02 January 2012	-	Loan schemes of Awakening North-Revolving Fund Phase - II and Resumption of Economic Activities in the Eastern Province - Revolving Fund Phase - II commenced.
02 March 2012	-	Limits on the daily net open positions of commercial banks in relation to the daily working balances in foreign exchange were reduced to one-third of the prevailing exposure limit, subject to a minimum of US Dollars 1 million.
	-	Net Open Positions of commercial banks were decreased to US Dollars 64.7 million.
19 March 2012	-	Licensed banks were required to use a common threshold of 55 years of age in identifying senior citizens.
05 April 2012	-	Draft Guidelines on adoption of Sri Lanka Accounting Standards (LKAS) 32, 39 and Sri Lanka Financial Reporting Standards (SLFRS) 7 and draft formats for the publication of quarterly and annual financial statements were issued.
17 April 2012	-	Considering the trends in the market interest rates, the maximum annual interest rates that licensed banks could charge on housing loans and credit card advances were increased to 16 per cent and 28 per cent, respectively.
24 April 2012	-	In order to ensure that banks maintain adequate capital above the minimum capital requirement to cover their exposures to all risks through the adoption of an internal capital adequacy assessment process, a consultation paper was issued to licensed banks under Pillar 2 of the Basel II framework, known as the Supervisory Review Process.
17 July 2012	-	Locally incorporated licensed banks were requested to obtain prior approval of shareholders for any special payments/benefits made to bank directors at their retirement in addition to normal remuneration and incorporate such special payments/benefits to the remuneration policy of the bank. Further, banks were requested to extend those special payments/benefits to bank directors on an arm's length basis and disclose the same in the Annual Report of the respective financial year.
18 September 2012	-	In order to promote a high standard of business conduct and market practice for the orderly conduct of the foreign exchange trading activities in Sri Lanka, a direction was issued on foreign exchange trading activities of licensed commercial banks.
15 October 2012	-	The Government Securities held under Reverse Repo Agreements by licensed banks were determined as liquid assets for the purpose of meeting Statutory Liquid Assets Ratio.

29 November 2012	-	With a view to streamline and rationalise the branch approval procedure, licensed banks were required to reclassify the existing banking outlets into two categories, namely branches and student savings units. All existing banking outlets except student saving units were to be upgraded as branches with effect from 01 January 2013. Further, the licensed banks were required to conspicuously display the list of activities for the information of the customers in the premises of a branch, when such branch is extending only selected banking services.
07 December 2012	-	ICRA Lanka Limited, a fully owned subsidiary of ICRA Limited of India was recognized as an approved external credit assessment institution for the purposes of all regulatory requirements applicable to licensed banks.
21 December 2012	-	A Direction on outsourcing of bussiness operations of licensed banks was issued covering the activities permitted to be outsourced including the internal audit and information technology functions.
02 January 2013	-	Net Open Positions of commercial banks revised upward to the total of US Dollars 120 million.
Forthcoming		
	-	Compliance with Basel II Captial Adequacy Framework requirements: - Adoption of Standardised Approach for calculating capital charge for operational risk under Pillar 1. - Implementation of the Supervisory Review Process under Pillar 2.
	-	Introduce appropriate reforms in line with Basel III.
	-	Developing a comprehensive supervisory framework for consolidated supervision of banking groups.
	-	Issuing revised Lanka Settle System Rules after incorporating all changes made to the system since the publication of version 2.0.
	-	Amending Mobile Payment Guideline No. 01 of 2011 for Bank-led Mobile Payment Services considering practical issues and new developments in mobile payment systems.
	-	Issuing amended guideline on Business Continuity Planning.
Other financial institutions		
27 February 2012	-	An application rule was issued for new finance companies to be in line with the Finance Business Act, No. 42 of 2011.
	-	The annual licensing fees applicable for Licensed Finance Companies (LFCs) were revised.
29 March 2012	-	The definition of the core capital used by the Specialised Leasing Companies (SLCs) given in the Direction issued in 2010 was revised to be in line with the definition of core capital under BASEL II.
	-	A revised Gearing Ratio Direction was issued to SLCs requiring them to use the core capital as the yard stick for calculating the gearing ratio instead of capital funds since capital funds are comprised of a wider range of reserves including revaluation reserves.
11 July 2012	-	Direction on assessment of fitness and propriety of all directors on the board and officers performing executive functions was issued to all SLCs.
	-	Liquid Assets Direction issued to SLCs, excluded liabilities to the shareholders, asset-backed long term borrowings and securitization from the total liabilities and off balance sheet amount used to compute the liquidity requirement.

06 September 2012 - A Direction was issued to LFCs on Information Systems Security Policy with the objective of ensuring adherence to at least the minimum information systems security policies established in the areas of access controls, procurement and maintenance, network management, business continuity planning, information system auditing and software licensing.

23 October 2012 - Finance Companies (Panel of External Auditors) Circular No. 1 of 2012 and Finance Leasing (Panel of External Auditors) Direction No. 5 of 2012 were issued to LFCs and SLCs respectively, requiring to appoint an external auditor from the panel of external auditors determined by the Monetary Board of CBSL in order to ensure conduct of external audits of non-bank financial institutions by competent and qualified auditors.

28 December 2012 - Interest Rates Direction was revised five times during 2012 to reflect the rates prevailing in the financial market. Revisions made to the interest rates margin for time deposits and non-transferable certificate of deposits are shown below:

Revised dates of the Direction	Quarterly weighted average yield rate of 364-day Treasury Bills issued during the quarter (rate of per cent applicable as at the Direction date)	Interest rates margin (per cent)	
		One year or less	Over one year
29.02.2012	9.23	5.50	6.50
29.05.2012	10.82	4.75	5.75
29.06.2012	10.82	3.00	4.00
28.09.2012	13.79	2.00	3.00
28.12.2012	14.65	2.00	Over one year and up to three years : 2.50 Over three years and up to five years : 3.00

The maximum interest rates LFCs could offer to mobilize time deposits and non-transferable certificate of deposits comprised of quarterly weighted average yield rate of 364-day Treasury Bills issued during the quarter plus the interest rates margin.

31 December 2012 - Guidelines were issued to the panel of external auditors selected by the Monetary Board of CBSL to carry out external audits of non-bank financial institutions to ensure greater degree of consistency of audits of non-bank financial institutions and to establish standard procedures.

Other

17 January 2012 - The stock brokers were permitted to extend credit to investors up to a limit of three times that of the adjusted net capital.

09 February 2012 - The Employees Provident Fund (EPF) Act was amended (Act No. 02 of 2012) as follows.

- The EPF members were allowed to withdraw 30 per cent of the individual balance for purpose of housing or medical treatments. Members with individual balances exceeding Rs. 300,000, who are presently employed and have made contribution to the fund for a period not less than ten years, are eligible to obtain this facility.

		- Every employer having more than fifty employees was directed to furnish a monthly return in prescribed manner, to the Commissioner General of Labour with a copy to the EPF Department of the CBSL by the end of the succeeding month. Every monthly return submitted after July 01, 2012 should be submitted by electronic means. - When an employee becomes a member of the Fund, allocation of an identification number for the member by the Commissioner General of Labour in a prescribed manner. - Investing moneys of the Fund according to prescribed terms and conditions to purchase a land for the construction of a Secretariat for the Fund or to construct a Secretariat on any land belonging to or held by the Fund, for the use of the Fund.
28 February 2012	-	The Financial Action Task Force (FATF) revised the existing 40 + 9 recommendations on combating Money Laundering and Terrorist Financing.
02 March 2012	-	Additional conditions were introduced to the listing rules for public companies seeking listings on the CSE. - Withdrawal of the provisions relating to listing of equity by way of an introduction with effect from 01st April 2012. - Introduction of a lock –in period for all shares issued prior to an Initial Public Offer (IPO), relating to listings of equity by way of an offer for subscription. - In respect of listings by way of an offer for sale, shareholders divesting through the IPO should have held such shares for at least 18 months. - Introduction of a lock-in period for all shares held by promoters and other existing shareholders, other than share offers and accepted by the public through an IPO.
02 April 2012	-	The Securities & Exchange Commission (SEC) issued direction to the CSE and all listed companies prohibiting the trading of warrants in the secondary market after the initial cutoff date.
19 April 2012	-	The SEC removed the 10 per cent price band imposed for 5 market days.
04 May 2012	-	Extraordinary Gazette No. 1756/27 was issued to the Licensed Banks and Registered Finance Companies as revision to Extraordinary Gazette No. 1699/10 of March 28, 2011, on Know Your Customer (KYC) and Customer Due Diligence (CDD) Rules, No. 1 of 2011.
25 May 2012	-	The following measures were introduced with the objectives of mitigating settlement risk which currently exists between T (trade day) and T+3 (settlement day). - Prohibit employees and directors of all market intermediaries to trade their shares purchased from the secondary market for a period of six months from the date of purchase. - Crossing transactions to have 20 per cent upper limit unless exceptionally allowed by the CSE on a case by case basis. - Current 15 per cent margin before trade execution to be strictly enforced including for National Savings Bank (NSB). - To have a more robust enforcement mechanism with clearly defined punitive measures for violation of rules by stock brokers, CEOs, directors and investment advisors.

16 July 2012	-	In order to allow brokers more flexibility in managing their credit to clients, SEC issued the following directive to the CSE as a measure to amend the computation of net capital as follows; - Debtors between T+3 – T+30 calendar days to be deducted if cost less provisions made for the period is greater than market value; - Debtors over T+30 calendar days to be deducted at 50 per cent of the cost less provisions made; - Debtors over T+120 calendar days to be deducted at 100 per cent of cost less provision made.
08 October 2012	-	Following restrictions imposed by SEC in May 2012 were removed. - Prohibit employees and directors if all market intermediaries to trade their shares purchased from the secondary market for a period of six months from the date of purchase. - Crossing transactions to have 20 per cent upper limit unless exceptionally allowed by the CSE on a case by case basis.
15 February 2013	-	The regulations governing money broking activities in Sri Lanka were issued by CBSL.