

Budget 2011

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President Mahinda Rajapaksa presented the Budget Proposals for 2011. The Mahinda Chinthana – Vision for the Future targets a per capita income beyond US \$ 4,000 by 2016. However, President Rajapaksa noted that this is not the Government's only objective. An environment will be created whereby people would be provided with equal opportunities and access to roads, electricity, water, communication, housing and health facilities.

Having emerged as a middle-income country, Sri Lanka is well-positioned to engage in accelerated development processes within the next six years. The Government has proposed measures to increase private investments both from foreign and domestic sources, as well as public investment, to support the targeted economic growth of over eight percent in the medium term and ten percent thereafter. Inflation has stabilised at around six percent, poverty has reduced to 7.6 percent and unemployment to five percent.

"A low rate of inflation of around five to six percent, economic growth rate of around seven to eight percent and a society free from poverty are our medium term targets. Our collective effort now onwards must be to maintain these positive trends in our economy over the medium term," the President stated.

Below are key highlights of the Budget:

Public Servants and Security Forces

Concerns of public servants must be recognised and resolved in order to motivate them. Many public servants have lost increments due to prevailing anomalies. Certain provincial teachers are yet to receive payments for a previous anomaly correction. It is the duty of the Government to provide for the long-term welfare of security forces personnel. The following were proposed:

An allowance of Rs 100,000 per family for a live birth of a third child for families of armed force personnel.

Special allowance equivalent to five percent of basic salary, effective from January 2011 to public servants and security forces.

Increase the Cost of Living allowance by Rs 600 effective from January 2011 (non staff grades) and July 2011 (staff grades).

Increase Cost of Living allowance for all pensioners from January 2011. This will be increased by Rs 750 per month for those retired prior to 2003, and Rs 250 for those who retired between 2003 and 2006. This will be effective from July 2011.

University academic staff and staff grade researchers in research institutions will get monthly research allowance equivalent to 25 percent of their basic salary from January 2011.

Doctors' on call allowance will be increased by 25 percent from January 2011.

Personal allowance of Members of the Judiciary under JSC increased by 25 percent.

Professional and managerial level public servants to get concessionary duty to import motor vehicles.

Tax system

The promotion of knowledge-based industries requires professionals. Steps will be taken to create the region's best income tax regime. The working class is the country's biggest asset and a steady income should be available to them after retirement. The following were proposed:

Tax free threshold income increased to Rs 500,000 and tax slab also increased to Rs 500,000. PAYE tax will be deducted only from employees earning over Rs 600,000 per year. Maximum tax rate will be 25 percent.

PAYE will be extended to the public sector.

Exempt terminal benefits from Employees Provident Fund (EPF) from income tax.

New Employees' Pension Fund to provide post retirement pension benefits to employees in the private and corporate sectors.

New Overseas Employment Fund

New Citizens' Pension and Insurance Fund.

Nation Building Tax reduced from three to two percent. Applicable threshold fixed at Rs 500,000.

Social responsibility levy, rural infrastructure levy and debit tax to be abolished.

Liquor, cigarette, casino taxes up by five percent.

Levy of US \$ 20 per bed on all Five Star hotels which charge a room rate less than US \$ 125 per night effective January 2011.

VAT on financial services to be reduced from 20 to 12 percent.

Tax on profits of banking and financial institutions to be reduced from 25 to 30 percent.

Plantation economy

Plantation agriculture plays a strategic role in the country's economy. The export income from plantation industries can be doubled by improving cultivation, processing and promoting higher value added export products. The following were proposed:

Smallholder tea growers subsidy increased by Rs 500,000 per ha in order to encourage replanting and new planting

Rs 500 million subsidy for tree planting and new planting, inter cropping in the coconut sector

Increased tree plantation subsidy for rubber and a 50 percent subsidy to popularise rain guards

Export-import industry

The export-import economy is vital for growth. A remarkable progress has been achieved in diversifying export products and their markets. The production drive should aim at expanding exports and replacing imports. Productiveness and competitiveness in export and import activities should be encouraged. The following were proposed:

Impose a CESS on all exports in raw and semi process form to encourage value added exports from Sri Lanka. However, exports of finished goods will be free from such CESS.

Reducing duties and taxes on machinery, equipment and raw material enabling access to world class technology.

Tax reduction from 15 to 10 percent for industries with domestic value addition in excess of 65 percent.

Reduce income tax of all export companies will be reduced from 15 to 12 percent.

Income tax on profits to be reduced from 35 to 28 percent in order to promote domestic manufacturing enterprises to increase their production

Tourism

In order to facilitate 2.5 million high spending tourists by 2016, the capacity of the industry need to be tripled. Local tourism itself is expected to increase significantly. Domestic construction companies, architects and professionals should be linked with the investment drive. The following were proposed:

Tax on tourism and related business income will be reduced from 15 to 12 percent
Duties and taxes on passenger transportation vehicles to be reduced by 25 percent
Import of electric and high bred vehicles exempted from Excise tax and VAT

Agriculture

Sri Lanka can become self-sufficient in many agricultural products. This requires an increase in the supply of high quality seeds and planting material. Ample opportunities are available to increase fish production and the livestock sector is critical in food security, income generation and foreign exchange savings. The following were proposed:

Five year tax exemption for seed farming investments.

A three year accelerated seed farm development initiative from 2011 at a cost of Rs 700 million.

Farm gate price for liquid milk to be increased to Rs 50 per litre.

North and East to produce 50 percent of total fish production.