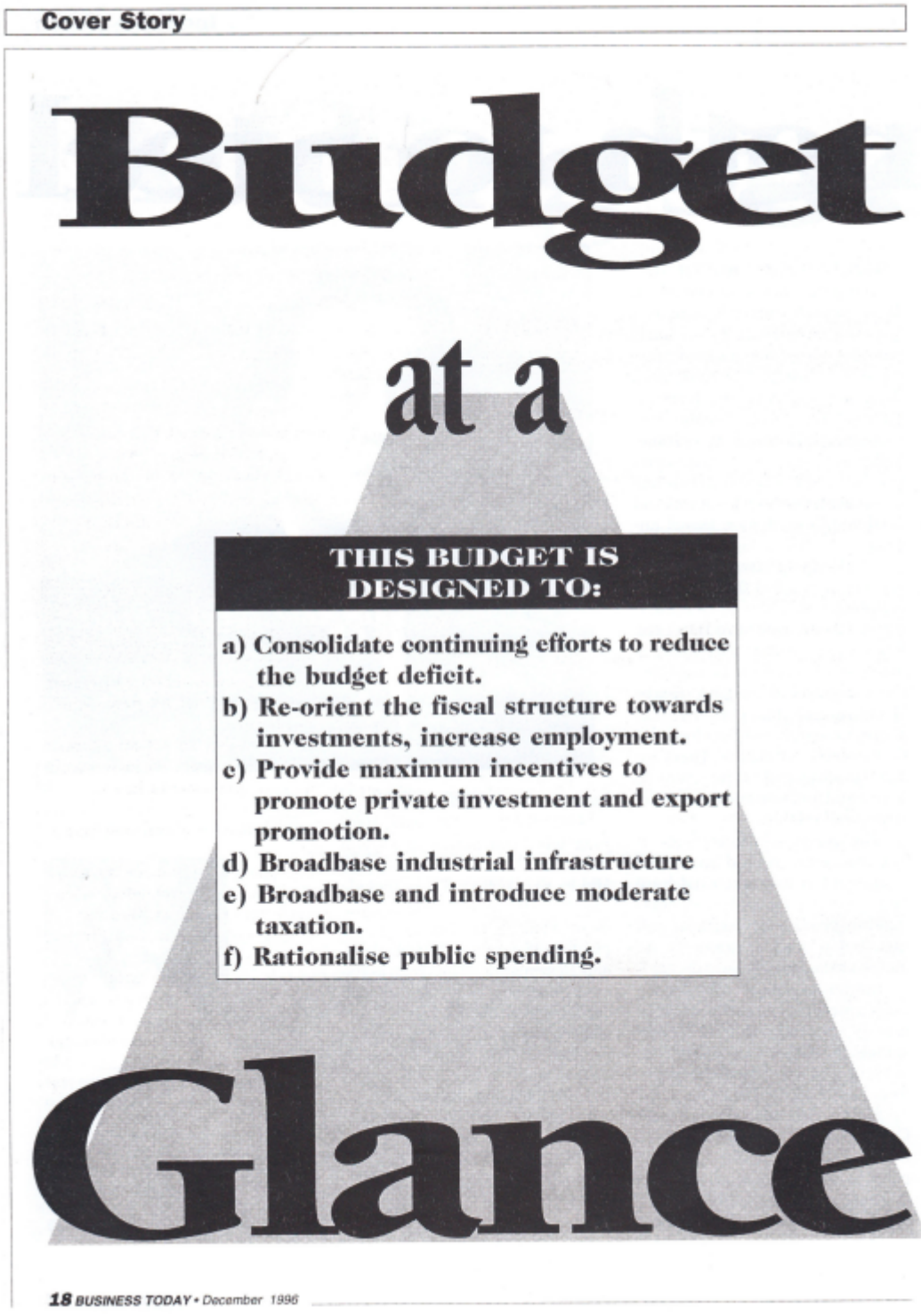
Budget at a Glance



Deficit

Overall deficit will be reduced from this year's 8.7 percent of GDP (Rs 67.4 billion) to 7.3 percent (Rs 64.8 billion).

Industrial Infrastructure

a) Establishment of two modern industrial parks.
b) Expansion of regional industrial estates.
c) Productivity Improvement Programme and an extension programme for small and medium industries.
d) Industrial township development program, establishment of a new industrial zone in Mahayaya and the development of the triangle linking Biyagama, Katunayake and Mirigama to develop as a township.

Export Promotion Drive

a) 100 percent exemption of duty and taxes on imports of capital and intermediate goods to exporters who export over 50 percent and 50 percent exemption for exports between 25 and 50 percent.
b) Exporters to be permitted to borrow abroad.
c) 100 percent rebate on the freight rates of Air Lanka for the export of foliage, cut flowers, fruits and vegetables.

Commitment to Social Welfare

	(Rs Mn)
1. Samurdhi program	8,692
2. School uniform	1,100
3. School season tickets and textbooks	950
4. Refugee settlement	3,566
5. Fertilizer subsidy	1,500
6. Other	597

Continued exemption of essential items from tax to moderate cost of living.
- Rice, flour, bread, sugar, lentil, potatoes, onions, chillies, milk powder, dried fish, pharmaceutical products, books, cement, fertilizer, are exempted from turnover tax.

Investment Promotion

a) Investment tax allowance to set off 75 percent of capital investment against 50 percent of income tax liabilities.
b) 100 percent tax allowance to set off against 75 percent of capital investment for investments over 250 million or investments in the backward areas.
c) 50 percent depreciation of plant, machinery and equipment.
d) Investment allowance for computer training.
e) Fiscal incentives for advanced technology with minimum investment of Rs 1 million for existing companies and Rs 4 million for new companies.
f) National security levy on capital goods to be reduced from 2 percent to 0.5 percent.
g) 3 year tax holiday for garment factories set up in backward areas, provided 150 additional jobs are created.
h) Stamp duty on share market transactions to be removed.
i) Full imputation on dividend distributed by quoted public companies to avoid double taxation.
j) Incentives to encourage specialised leasing industries to promote long term capital formation.

Revenue Measures

a) The adjustment of the depreciation of used motor vehicles for import duty calculation.
b) 10 percent excise duty on hard liquor.
c) 5 percent excise duty on selected passenger motor vehicles.
d) Stamp duties to be placed on 2 percent ad-valorem basis.
e) Increase in turnover tax from 6 and 10 percent to 7 and 11 percent.
f) Maximum income tax rate of 35 percent will be reduced to 30 percent in 1998 and 25 percent in 1999.
g) Taxation of employees of public sector corporations and NDB and DFCC.
h) The levy on diesel vehicles to be unified at Rs 5,000.

Other Revenue Measures

a) Passport fees and fees on travel documents to be increased, except for Middle East countries.
b) 10-15 percent increase in administrative fees and charges.
c) 0.50 increase in ordinary postal rate.
d) 1 percent increase in W&OP contributions.
e) Dividend and levies on related public corporations.
f) Restrictions on the operations of gambling centres through legislation and imposition of Rs 5 million on each establishment.

Tax Administration

a) Legal liability to be imposed on company directors for the collection and remittance of PAYE tax.
b) Taxation limit on free housing to be fixed at Rs 120,000.
c) Extension of withholding tax provision under the Turnover tax to cover payments of commercial rents in excess of Rs 100,000 per quarter on premises let out by companies.
d) Withholding tax on professionals and others to be increased from 3 percent to 5 percent.
e) Withholding tax on interests to be reduced to 10 percent from 15 percent.
f) Carry forward losses to be restricted to a period of 7 years.
g) Taxes in default to be collected
h) A levy on the users for non-compliance for which exemptions are granted.
i) Minimum 5 percent duty on items considered for duty waivers.
j) Strict penalty provision on cigarette smuggling.

Income Taxation

Tax Threshold Rs 144.00
Tax Rate

Present	Proposed	Rate
35,000	100,000	10%
35,000	100,000	15%
35,000	100,000	25%
Balance	Balance	35%

Revenue and Expenditure

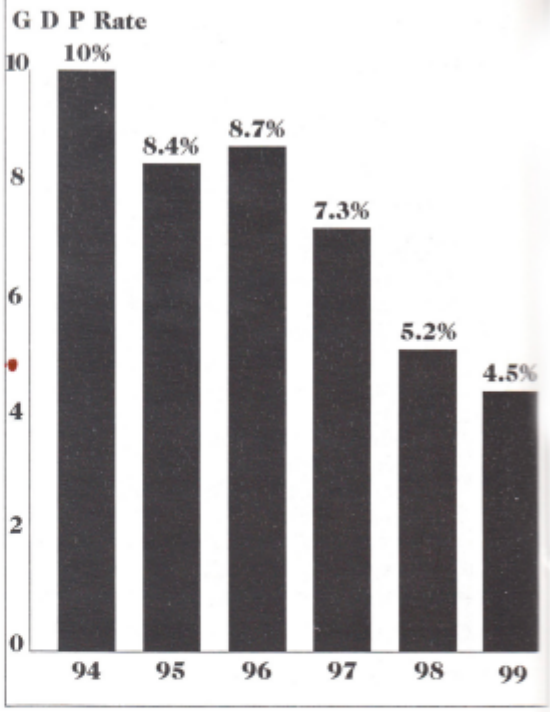
	1996	(Rs Mn) 1997
1.Tax revenue	**130,407**	**151,451**
Income taxes	20,350	21,695
Turnover tax	38,092	43,478
National security levy	16,100	18,426
Excise levy	23,145	28,936
Stamp Duty	5,420	6,788
Import duties	25,700	30,078
Motor vehicle levy and others	1,600	2,050
2. Non-Tax Revenue	**16,880**	**19,285**
Rent	225	525
Interest	6006	6496
Profits and Dividends	3,300	3,750
Sales and Charges	4,000	4,700
Social Security Contributions	900	1,938
Other	2,449	1,876
TOTAL	**147,287**	**170,736**
	1996	**1997**
1. Current Expenditure	**174,727**	**177,930**
Salaries	10,022	11,630
Other Goods and Services	9,346	10,547
Pensions	16,500	18,075
Interest	45,457	49,800
Defence	43,724	42,124
Provincial Councils	17,080	18,785
Corporations	9,200	2,239
Institutions	2,450	3,931
Samurdhi	8,703	8,692
Other Welfare	9,713	8,804
Contingency and Others	2,532	3,303
2. Capital Expenditure & Nett Lending	**39,988**	**56,640**
Public Investment	50,200	60,544
Repayments and Other	-10,212	-2,904
TOTAL	**214,715**	**235,570**

Source: Draft estimates and Budget Speech 1997

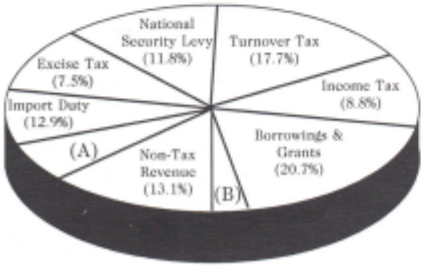
Summary of the Budget

	1996	1997
Total Revenue and Grants	20.3	20.2
Total revenue	19.1	19.1
Tax revenue	16.8	17.0
Non-tax revenue	2.2	2.1
Grants	1.2	1.1
Expenditure and Lending minus repayments	27.7	26.0
Current	22.5	19.9
Capital and Nett Lending	5.2	6.5
Current account Surplus/Deficit(-)	-3.5	-0.8
Budget Deficit (before grants)	-8.7	-7.3
Budget Deficit (after grants)	-7.5	-6.2
Financing	7.5	6.2
Foreign borrowing	1.8	1.6
Domestic borrowing	5.7	4.5
Non-bank borrowing	4.6	4.5
Bank Financing	1.2	0.0

Medium Term Direction



HOW A RUPEE IS EARNED IN 1997



(A) Other Tax Revenue (3.4%)

(B) Loan Repayments & Divestiture Proceeds (4.0%)

HOW A RUPEE IS SPENT IN 1997

