



PERFORMANCE REPORT - 2018

**Department of Fiscal Policy
Ministry of Finance
Colombo 01**

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1.0 Framework

1.1 Introduction

The main responsibilities of the Department of Fiscal Policy are formulation and implementation of fiscal policy within the broad developmental framework of the government in consultation with relevant institutions, line ministries, other agencies/institutions and private sector to achieve desired economic and social outcomes to the country.

The Department is mainly responsible for the taxation policy of country as well as analyzing the revenue, expenditure and financing activities, and the domestic and global macroeconomic development in order to facilitate appropriate adjustment in the country's fiscal policy to achieve desired outcomes.

The Department of Fiscal Policy identified the importance of strengthening its activities further to provide necessary impetus towards undertaking more analysis and research activities in the medium to long run thereby facilitating the General Treasury's transformation to operate in a middle income economy environment.

1.2 Vision

To Ensure the Establishment of a Sustainable Fiscal Policy Framework

1.3 Mission

Formulation and Implementation of Fiscal Policies within the Broad Developmental Framework of the Government

1.4 Scope and Functions

Formulation and implementation of Fiscal Policy and Medium Term Fiscal Strategy by coordinating public, private and international agencies.

Formulation of Tax Policy and related statutes other than the Customs Duty and the Special Commodity Levy.

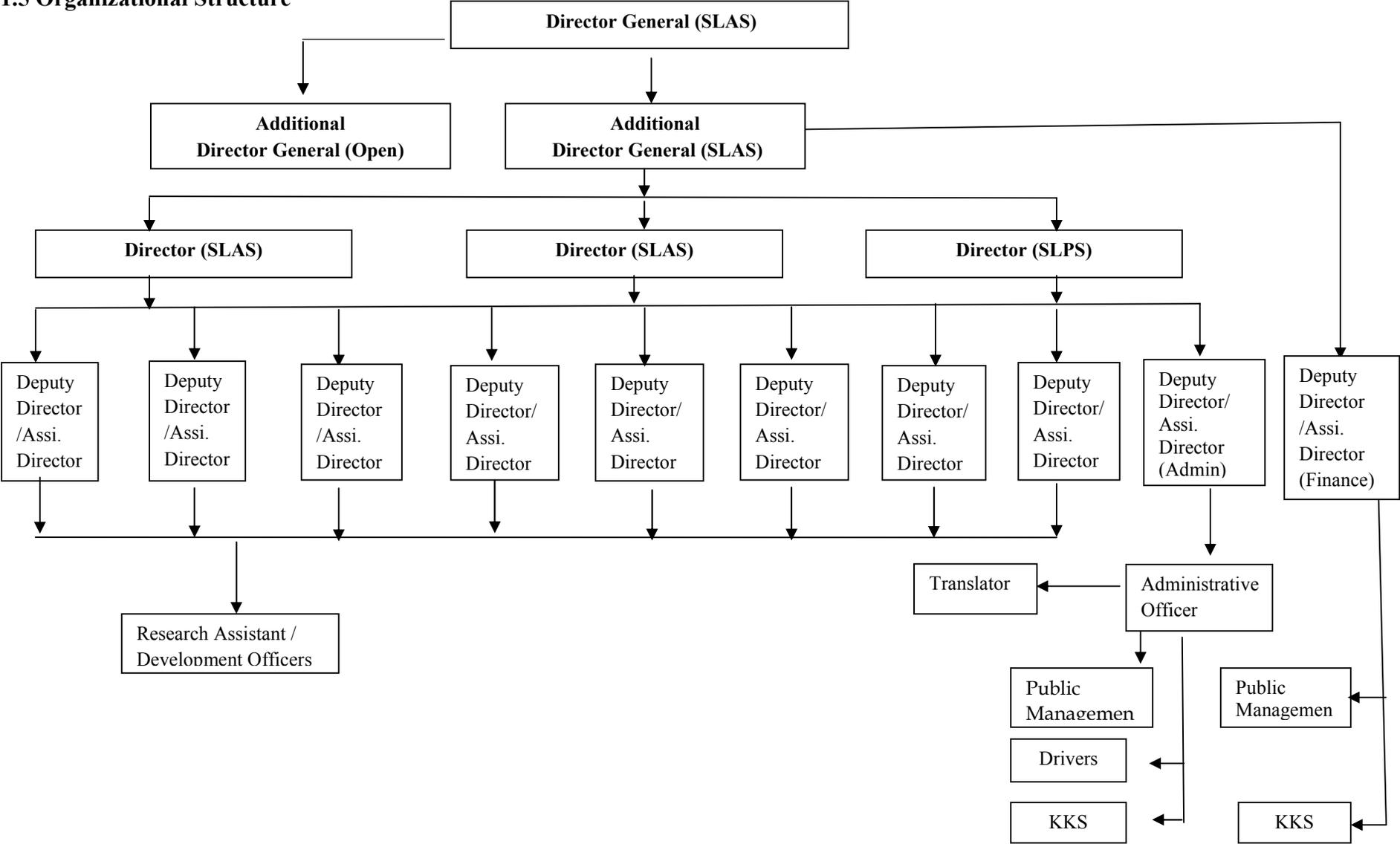
Management and review of Fiscal Out-turn and Fiscal Performance including Government revenue and receipts while maintaining a proper coordination with all departments engaged in revenue collection.

Handling the work related to the amendments to the legislations as per the policy decisions taken by the government from time to time.

Implementation of requirements under Fiscal Management (Responsibilities) Act, No.3 of 2003 including Reporting.

Undertaking analysis/research on various fiscal and macroeconomic matters

1.5 Organizational Structure



2.0 Fiscal Policy Development in 2018

2.1 Overview (The Fiscal Consolidation Process)

The fiscal consolidation process of the Government focused not only enhancing revenue mobilization but also improving efficiency of spending in 2018 in line with “Vision 2025”. Accordingly, total government revenue increased by 4.8 percent to Rs. 1,932 billion during January- December, 2018, compared to Rs. 1,839 billion in the same period of 2017. Total tax revenue increased by 2.5 percent to Rs. 1,712 billion while non-tax revenue significantly increased by 28.6 percent to Rs. 208 billion in the end of 2018 mainly due to the profit transfers from the Central Bank and the rise in revenue from sales and charges. Grants significantly increased by 53.1 percent to Rs. 12.3 billion in 2018 compared to Rs. 8.0 billion in 2017.

The implementation of new Inland Revenue Act effective from April 1, 2018 and strengthening the tax administrative process through the Revenue Administration and Management Information System (RAMIS) at Department of Inland Revenue (IRD) and expansion of tax base and rates augmented the revenue collected from Income tax by 13.1 percent to Rs. 310.5 billion despite the reduction of WHT revenue.

Expansion of domestic activities and rise in imports such as Coal, Milk Powder, Cement and Lubricants supported to increase Value Added Tax (VAT) by 4.0 percent to Rs. 461.7 billion in 2018 whereas VAT exemption especially for health sectors hindered to achieve target in 2018.

Excise duty increased by 3.1 percent to Rs. 484.3 billion due to revenue generated from excise duty increased motor vehicle, liquor, cigarettes and tobacco. However excise duty from petroleum products declined by 10.4 percent.

Revenue from Port and Airport Development Levy (PAL) grew to Rs. 114 billion by 11.3 percent because of rise in imports of intermediate goods, fertilizer and impact depreciation of exchange rate against US dollar despite granting concessionary rate of 2.5 from standard rate 7.5 to identified machinery and equipment.

Despite exemption granted to construction services, sales of residential apartments, services of inbound travel agents received in foreign currency revenue of Nation Building Tax (NBT) increased to Rs. 71.4 billion.

Removal of Telecommunication Levy on internet and drop of call duration hindered revenue of Telecommunication Levy by 15.2 percent to Rs. 28.3 billion. Similarly removal of CESS on identified 253 items also caused to decrease of CESS by 10.4 percent.

Profit transfer from Central Bank and increased collection of social security contribution, mainly from public sector employees supported to increase non tax revenue by 28.7 percent to Rs. 207.6 billion.

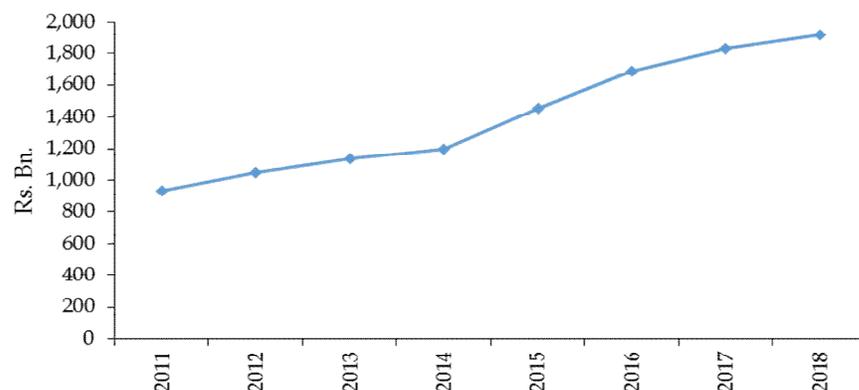
Meanwhile, total expenditure and net lending increased by 4.6 percent to Rs. 2,692 billion reflecting increased public debt repayments to Rs. 309 billion, interest payments to Rs. 852 billion and government servants' salaries to Rs. 626 billion in 2018. Recurrent expenditure increased by 8.4 percent to Rs. 2,090 billion while capital expenditure slightly decreased during the period. The overall budget deficit was Rs. 760 billion in 2018, compared to Rs. 733 billion in the same period of 2017. Total net foreign financing in 2018 increased to Rs. 444 billion compared to Rs. 382 billion recorded in 2017 while total net domestic financing declined to Rs. 316 billion compared to Rs.352 billion in 2017.

Table 2.1.1- Tendency in the Government Revenue

	Rs. Mn.				
Item	2014	2015	2016	2017	2018 (Provisional)
Total Revenue and Grants	1,204,621	1,460,892	1,693,557	1,839,562	1,932,243
Total Revenue	1,195,206	1,454,878	1,686,061	1,831,531	1,919,949
Tax Revenue	1,050,362	1,355,779	1,463,689	1,670,178	1,712,318
Income Tax	198,115	262,583	258,857	274,562	310,449
Taxes on Goods and Services	615,832	803,798	841,967	1,025,799	1,061,752
Taxes on External Trade	236,415	289,398	362,865	369,817	340,117
Non Tax Revenue	144,844	99,099	222,372	161,353	207,631
Grants	9,415	6,014	7,496	8,031	12,294
As a % of GDP					
Revenue and Grants	11.6	13.3	14.2	13.8	13.5
Total Revenue	11.5	13.3	14.2	13.8	13.4
Tax Revenue	10.1	12.4	12.3	12.6	11.9
Non Tax Revenue	1.4	0.9	1.9	1.2	1.4
Grants	0.1	0.1	0.1	0.1	0.1

Source: Department of Fiscal Policy

Chart 2.1.1- Government Revenue 2011-2018



2.2 Fiscal Policy Measures

During the year 2018, the Department had taken several fiscal policy measures to enhance revenue mobilization, aligning with the government's medium-term framework on fiscal consolidation. These measures included revision of taxes, rationalization of tax exemptions and concessions, broaden of tax bases and strengthen of tax collection agencies, particularly Inland Revenue Department (IRD).

Under tax revisions, Excise (Special Provisions) Duty rates on motor vehicles with engine capacity of less than 1,000 cc and cigarettes exceeding 72 mm and 84 mm increased in August 2018. Excise Duty payable under Excise Ordinance (Chapter 52) on importation of non-portable spirits by BOI enterprises was exempted in October 2018. Under Value Added Tax (VAT) revisions, VAT rate applicable on import or import and supply of sugar was reduced from 15% to 0% and VAT rate applicable on import of sawn timber was reduced from 15% to 5%.

Payable Excise (Special Provisions) Duty, under Excise (Special Provisions) Act, No. 13 of 1989 for concessionary vehicle importation schemes had been amended, ensuring the rationalization of granted Excise Duty concessions. In addition, concessionary Ports and Airports Development Levy (PAL) of 2.5% was granted for high-tech machineries and equipment. CESS rate of Rs. 10.00 per kg was introduced for bulk tea exports and CESS rate of Rs. 25.00 per kg or 25% was introduced for fabric bags and their raw materials. Applicable CESS of 30% or Rs. 300.00 per kg on sanitary towels was removed. Under Value Added Tax (Amendment) Act, No. 25 of 2018, supply of private medical services excluding rooms charges were exempted from the payment of VAT. In addition, exemptions were granted for Sri Lanka Deposit Insurance Scheme on supply of financial services and certain supplies such as infant milk powder, books, magazines, journals and periodicals. Granted VAT exemptions were removed for the import or supply of imported goods including plants & flowers, fabrics, wood and articles, plants and machineries/industrial racks. Nation Building Tax Act, No. 09 of 2009 was amended to remove Nation Building Tax (NBT) exemption applicable on liquor and to exempt the payment of NBT for importation of non-motorized equipment and accessories for water sports. Moreover, importation of gem stones for cutting and re-export purposes and construction services provided under a contract agreement executed prior to August 01, 2017 were exempted from the payment NBT by the above amendment.

Under broaden of tax bases, Excise (Special Provisions) Duty was introduced for fruit based beverages based on sugar content, industrial fatty acids and sugar. Stamp Duty was introduced for liquor license including AFL 1, AFL 2, AFL 3 and AFL 4 along with the sale of bottled toddy. Carbon tax was introduces for motor vehicles based on their engine capacity, fuel type and vehicle age under Finance Act, No. 35 of 2018. Under the same act, Debt Repayment Levy of 7% was introduced on Value Added Tax on financial services and Cellular Tower Levy of Rs. 200,000 per tower per annum and Levy on Mobile Short Message Services were introduced for mobile operators. Moreover, Tourism Development Levy and Annual Company Registration Levy were introduced for tourism sector and companies based on their category.

Amendments were made to the Economic Service Charge (ESC) Act, No. 13 of 2006 to establish Excise Duty payable as the tax base for charging ESC on imported motor vehicles.

Inland Revenue Act, No. 24 of 2017 had been in operation from April 01, 2018, strengthening tax administration of the Inland Revenue Department. Under the above Act, a three-tier corporate income tax structure (14%, 28% and 40%) was introduced and personal income tax slabs had been widened to Rs. 600,000 brackets from Rs. 500,000 while increasing the highest marginal tax rate to 24.0 percent from 16.0 percent. Furthermore, capital allowance structure and withholding tax rate were amended under the new act. The details on relevant major fiscal measures are tabulated as follows;

Table 2.2.1 Major Fiscal Measures in 2018

Effective Date	Measures
Excise (Special Provisions) Duty	
16.02.2018	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 2058/33 of 15.02.2018) -To Increase the maximum limit of exemption of Excise Duty for beneficiaries of categories of I, II and III as specified in Public Administration Circular No. 22/99 to Rs. 22.0 Mn., Rs. 16.00 Mn. and Rs. 12.00 Mn., respectively.
16.02.2018	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 2058/34 of 15.02.2018) -To increase the maximum limit of exemption of Excise Duty to Rs. 5.0 Mn. for beneficiaries of vehicle imported under Trade and Investment Policy Circular No.1/2018.
12.04.2018	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 2066/40 of 12.04.2018) -To grant tax concession to vehicles for which LCs opened on or before November 09, 2017 for beneficiaries of vehicle imported under Local Government and Provincial Council Circular No. 01/2017.
24.04.2018	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 2068/9 of 24.04.2018) -To grant a vehicle permit to General (Rtd.) Hamilton Wanasinghe.
15.05.2018	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 2071/16 of 15.05.2018) -To introduce an annually depreciation rate of Excise Duty to sell/dispose motor vehicles imported and registered by diplomats/diplomatic organization on a 100% duty-free basis.
31.05.2018	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 2073/41 of 31.05.2018) -To impose Excise Duty of Rs. 7.00 per liter on kerosene.

Effective Date	Measures
09.06.2018	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 2074/39 of 08.06.2018) -To reduce the maximum limit of exemption of Excise Duty to Rs. 3.6 Mn. from Rs. 5.0 Mn. for beneficiaries of vehicle imported under Trade and Investment Policy Circular No. 1/2018 as amended.
14.06.2018	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 2075/51 of 14.06.2018) -To remove the applicable Excise Duty on kerosene.
25.07.2018	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 2079/58 of 12.07.2018) -To revise Excise Duty based on sugar contained in beverages.
17.07.2018	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 2080/31 of 17.07.2018) -To remove the condition of the grace period to release the vehicles from Sri Lanka Customs and allowed to register without changing laws and conditions of the concession to facilitate the applicants as prescribed in the applicable Gazette Notifications.
01.08.2018	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 2082/10 of 31.07.2018) -To increase the Excise Duty on motor vehicles with the engine capacity less than 1,000 cc.
01.08.2018	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 2082/11 of 31.07.2018) -To increase Excise Duty on cigarettes with length exceeding 72 mm.
06.08.2018	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 2083/2 of 06.08.2018) -To strengthen the tax relief given for motor vehicles imported based on LCs established on or before August 01, 2018.
18.09.2018	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No.2089/18 of 17.09.2018) -To impose Excise Duty on sugar.
09.10.2018	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No.2092/5 of 08.10.2018) - To impose excise duty on Fatty acids.
02.11.2018	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 2095/18 of 01.11.2018) -To revise the Excise Duty on Diesel.
12.11.2018	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No.2097/3 of 12.11.2018) -To re-gazette the imposition of excise duty on beverages based on sugar

Effective Date	Measures
	contained in the product
04.12.2018	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No.2100/3 of 2018.12.03) -To revise excise duty on carbonate beverages based on sugar content in the product.
Excise (Ordinance) Duty	
11.01.2018	Excise Notification No. 01/2018 (Gazette No. 2053/21 of 10.01.2018) -To revise business hours of the liquor licensed establishments.
10.01.2018	Excise Notification No. 02/2018 (Gazette No. 2053/26 of 10.01.2018) -To revise the conditions set out in the Excise Notification No. 666.
18.01.2018	Excise Notification No. 03/2018 (Gazette No. 2054/41 of 18.01.2018) -To rescind the Excise Notification No. 01/2018 on “Business Hours for Liquor License Establishments “based on Cabinet decision dated 16/01/2018.
18.01.2018	Excise Notification No. 04/2018 (Gazette No. 2054/42 of 18.01.2018) -To rescind the Excise Notification No. 02/2018 on “Revision of the conditions set out in the Excise Notification No. 666 “ based on cabinet decision dated 16.01.2018.
22.01.2018	Excise Notification No. 05/2018 and 06/2018 (Gazette No. 2055/09 of 23.01.2018) -To repeal the word “pulp” in the schedule of Excise Notification No. 1001 and 1002.
21.02.2018	Excise Notification No. 07/2018 (Gazette No. 2059/32 of 21.02.2018) -To reduce Excise Duty on non-potable spirits imported into Sri Lanka by Rs. 9.00 per bulk kg.
01.04.2018	Excise Notification No. 08/2018 (Gazette No. 2066/2 of 09.04.2018) -To introduce license fee for toddy tapping and drawing as per the Excise Ordinance (as amended).
16.04.2018	Excise Notification No. 09/2018 (Gazette No. 2065/57 of 06.04.2018) -To reduce the license fee for bottling toddy by Rs. 500,000.
13.06.2018	Excise Notification No.10/2018 (Gazette No. 2075/23 of 13.06.2018) -To amend the Excise Notification No. 07/2018.
13.06.2018	Excise Notification No. 11/2018 (No. 2075/24 of 13.06.2018) -To revise the opening and closing hours of toddy taverns.
04.10.2018	Excise Notification No. 12/2018 (Extraordinary Gazette No. 2091/50 of 2018-10-03) -To exempt BOI approved companies from the payment of excise duty on importation of non-portable spirits.

Effective Date	Measures	
Ports and Airports Development Levy (PAL)		
05.04.2018	Ports and Airports Development Levy (PAL) Act, No. 18 of 2011 (Gazette Notification No. 2065/42 of 06.04.2018) -To grant concessionary PAL rate of 2.5% for importation of identified High Tech machinery and equipment.	
11.07.2018	Ports and Airports Development Levy (PAL) Act, No. 18 of 2011 (Gazette Notification No. 2079/34 of 11.07.2018) -To grant concessionary PAL rate of 2.5% for importation of identified High-Tech machinery and equipment.	
Stamp Duty		
01.10.2018	Stamp Duty (Special Provisions) Act, No. 12 of 2006 (Gazette Notification No. 2091/3 of 01.10.2018) -To impose Stamp Duty for Liquor license (AFL 1, AFL 2, AFL 3, AFL 4) and license for sale of bottled toddy.	
CESS Levy		
25.07.2018	Sri Lanka Export Development Act, No. 40 of 1979 (Gazette Notification No. 2081/10 of 24.07.2018) -To introduce fixed CESS rate of Rs. 10.00 per kg of bulk tea export.	
26.09.2018	Sri Lanka Export Development Act, No. 40 of 1979 (Gazette Notification No.2090/05 of 25.09.2018) -To rename the applicable CESS of 30% or Rs. 300.00 per kg on importation of sanitary towels.	
17.10.2018	Export Development Act, No.40 of 1979(Gazette Notification No. 2093/19 of 2018.10.17) -To amend the Rate of CESS on Textile Fabrics.	
Income Tax		
Corporate Income Tax		
01.04.2018	Three Tire Income tax rate structure was introduced: - Standard Rate 28% - Financial services, insurance, trade, manufacturing and any other not falling under concessionary/higher tax category. - Concessionary Rate 14% - SMEs, exporters, agriculture, educational services, promotion of tourism, IT services, charitable institution, EPF, ETF and pension funds. - Higher Rate 40% - Betting and gaming, tobacco and liquor.	
Individual Income Tax		
	Taxable Income (Rs.)	Tax Rate
01.04.2018	First 600,000	4%
	600,000 - 1,200,000	8%
	1,200,000 - 1,800,000	12%

Effective Date	Measures	
	1,800,000 - 2,400,000	16%
	2,400,000 - 3,000,000	20%
	Exceeding 3,000,000	24%

Employment Income

01.04.2018	-Employment income is taxed under progressive rates up to 24% and slabs applicable for taxable income of an individual was broadened. -Qualifying payment relief increased from Rs. 250,000 to Rs. 700,000 -Tax treatment on retirement benefits remains unchanged. -Secondary employment First Rs. 50,000 per month : 10% Balance : 20%
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Capital Allowance Structure

	Description	New Rate
01.04.2018	Computers and data handling equipment	20%
	Vehicles	20%
	Plants and machinery	20%
	Buildings	05%
	Intangible assets, excluding goodwill	Actual useful life or 5%

Withholding Tax

	Category	Rate
01.04.2018	Interest Income from bank deposit - Senior Citizen	5% (on excess of Rs. 1. Mn./per annum)
	-Others	5%
	Interest on corporate debt securities	5%
	Interest on government securities	Nil
	Rent	10%
	Specified fee - in excess of Rs. 50,000.00	5%
	Partnership - on each Partner's share	8%
	Sale of gems at auction by National Gem and Jewelry Authority	2.5%
	All other cases (Dividends, Royalty etc.)	14%

Tax on Capital Gain Tax

01.04.2018	10% on the gains from realization of land and buildings and other investment assets excluding quoted shares.
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Investment Incentives Scheme

01.04.2018	New investment incentives scheme based on the enhanced depreciation allowance is provided for a person who spend on depreciable assets other than intangible assets during a year of assessment.
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Land (Restrictions on Alienation) Tax

Effective Date	Measures								
30.07.2018	-To remove restrictions imposed on foreigners under the Land Act in respect of companies listed in the Colombo Stock Exchange. -To remove the prohibition on foreigners on buying condominium units below the 4th floor.								
Nation Building Tax									
30.07.2018	-To remove NBT exemption applicable on liquor. -To exempt of imports of non-motorized equipment and accessories for water sports and gem stones for cutting and re-export purposes. -To exempt construction services provided under a contract agreement executed prior to August 01, 2017.								
Value Added Tax									
16.08.2018	-To exempt VAT on supply of private Medical Services excluding room charges. -To exempt the Sri Lanka Deposit Insurance Scheme on supply of financial services. -To reduce piece based rate of VAT chargeable on local sale of certain garments, by export oriented companies. -To exempt certain supplies such as infant milk powder, books, magazines, journals and periodicals. - To remove VAT Exemptions on the import or supply of imported goods including plants & flowers, fabric, wood and articles, plant and machinery/industrial racks. -To remove exemption of sale of condominium housing units with effect from April 1, 2019. -To introduce VAT Refund Scheme for Tourists.								
18.09.2018	-To reduce VAT rate applicable on import or import and supply of sugar from 15% to 0%								
01.11.2018	-To exempt VAT rate on import of fabric.								
01.11.2018	-To reduce VAT rate applicable on the import of Sawn Timber to 5%.								
Imposition of new taxes and the amendment of certain taxes under the Finance Act									
01.01.2018	-To impose Vehicle Entitlement Levy charged from the vehicle importers at the time of opening LC prior to 31.12.2018 and charged the levy commencing on/after 01.01.2019 by Sri Lanka Customs								
01.10.2018	- To impose Annual Company Registration Levy for the year 2018. <table border="1" data-bbox="454 1701 1185 1869"> <thead> <tr> <th>Category of Company</th> <th>Rate (Rs. per annum)</th> </tr> </thead> <tbody> <tr> <td>Listed Public Company</td> <td>1,500,000</td> </tr> <tr> <td>Private Company</td> <td>30,000</td> </tr> <tr> <td>Any other Company</td> <td>250,000</td> </tr> </tbody> </table>	Category of Company	Rate (Rs. per annum)	Listed Public Company	1,500,000	Private Company	30,000	Any other Company	250,000
Category of Company	Rate (Rs. per annum)								
Listed Public Company	1,500,000								
Private Company	30,000								
Any other Company	250,000								

Effective Date	Measures
01.10.2018	- To introduce Debt Repayment Levy at the rate of 7% on Value Added tax on financial services.
01.11.2018	-To amend Hub Provisions facilitating the enterprises engaged in the hub activities to be registered under the simplified Value Added Tax (SVAT) scheme.
01.01.2019	- To introduce Carbon Tax imposed on motor vehicles based on the engine capacity.
01.01.2019	-To introduce Cellular Tower Levy charged at Rs.200, 000/- annually per tower.
01.01.2019	-To introduce Levy on Mobile Short Message Services (advertisement)
01.01.2019	-To introduce Tourism Development Levy
Economic Service Charge	
20.09.2018	-To establish Excise Duty payable as the tax base for charging ESC on imported motor vehicles. -To make the liable turnover of the wholesale supply of fuel for ESC purpose to the one tenth (1/10) of the turnover. -To exempt the unrealized exchange gains of CBSL.
Administrative Changes	
28.04.2018	The domestic gas price was increased by Rs. 245.00 for a 12.5 kg cylinder.
05.05.2018	The retail price of milk was increased by Rs. 50.00 per kg.
30.06.2018	The domestic gas price was decreased by Rs. 138.00 for a 12.5 kg cylinder.
27.09.2018	The domestic gas price was increased by Rs. 195.00 for a 12.5 kg cylinder.

2.3 Trends of Government Revenue

2.3.1 Government Revenue

The government strengthen the revenue based fiscal consolidation process enhancing revenue mobilization in 2018 Accordingly, total government revenue increased by 4.8 percent to Rs. 1,920 billion in 2018, compared to Rs. 1,832 billion in 2017. This was an achievement of 86.6 percent from annual revenue estimate for 2018. Total tax revenue increased by 2.5 percent to Rs. 1,712 billion compared to 1,670 billion recorded in previous year. Meanwhile, non-tax revenue significantly increased by 28.6 percent to Rs. 208 billion in 2018 mainly due to enhanced revenue from sales and charges and profit transfers from the Central Bank.

In context of direct taxes, the revenue from income tax significantly increased by 13.1 percent to Rs, 310 billion in 2018 compared to previous year mainly benefiting from tax reforms with implementation of the New Inland Revenue Act with effect from April 01, 2018 together with strengthening the tax administration process in Inland Revenue Department. Meanwhile, the revenue from Value Added Tax (VAT) and Excise Tax were in place to maintain as the main revenue sources in increase of indirect taxation in 2018 with the enhanced performances recorded in other revenue sources excluding revenue from import duty and Cess.

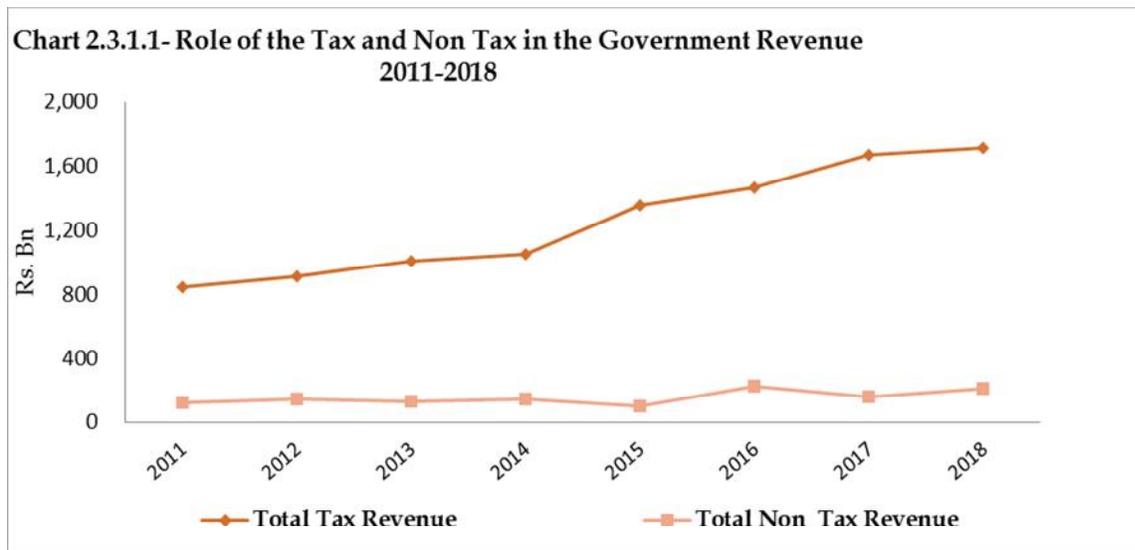


Table 2.3.1.1 Estimated and Actual Revenue - 2018

	Rs. Mn.		
Item	Estimated	Actual	Deviation
Total Revenue	2,217,100	1,919,949	-297,151
Tax Revenue	2,034,000	1,712,318	-321,682
Department of Inland Revenue			
Tax on Income and Profit	371,800	310,449	-61,351
VAT - Domestic (Net)	340,000	282,487	-57,513
Nation Building Tax (Domestic)	62,000	51,192	-10,808
Sub Total	773,800	644,128	-129,672
Department of Customs			
Import Duty	175,000	96,991	-78,009
VAT - Imports (Net)	210,000	179,163	-30,837
Nation Building Tax (Import)	25,000	20,165	-4,835
PAL	115,000	113,950	-1,050
Cess Levy	49,500	53,369	3,869
Special Commodity Levy & Other	80,000	75,807	-4,193
Excise Special Provisions	410,000	370,298	-39,702
Cigarettes	90,000	92,198	2,198
Petroleum	80,000	66,318	-13,682
Motor Vehicles & other	240,000	211,782	-28,218
Sub Total	1,064,500	909,743	-154,757
Department of Excise			
Liquor/Tobacco	125,040	113,989	-11,051
Sub Total	125,040	113,989	-11,051
Other	70,660	44,457	(26,203)
Telecommunication Levy	30,000	28,326	-1,674
License Tax & Other	40,660	16,131	-24,529
Sub Total	70,660	44,457	-216,561
Non - Tax Revenue	183,100	207,631	24,531

Source: Department of Fiscal Policy

Table 2.3.1.2- Government Revenue

	Rs. Mn.					
Item	2013	2014	2015	2016	2017	2018 (Provisional)
Tax Revenue	1,005,895	1,050,362	1,355,779	1,463,689	1,670,178	1,712,318
Income Tax	205,666	198,115	262,583	258,857	274,562	310,449
VAT	250,523	275,350	219,700	283,470	443,739	461,651
Nation Building Tax	40,937	44,583	45,004	57,424	69,035	71,357
Excise Duty	250,700	256,690	497,623	454,952	469,454	484,287
Import Duties	83,123	81,108	132,189	156,487	136,501	96,991
Ports & Airports Development Levy	61,987	68,646	58,644	88,823	102,360	113,950
Special Commodity Levy	46,705	47,953	52,276	55,825	71,402	75,807
Other	66,255	77,917	87,760	107,851	103,125	97,826
Non Tax Revenue	131,552	144,844	99,099	222,372	161,353	207,631
Interest/ Rent	11,995	13,647	7,321	15,806	11,845	13,743
Profit and Dividends	35,169	46,814	29,798	108,160	53,998	41,828
Sales and Charge	40,720	35,499	44,632	72,606	66,575	105,204
Social Security Contribution	15,145	14,919	15,213	18,046	22,940	25,214
Central Bank Profit Transfers	26,350	11,500	-	5,000	-	15,000
Other	2,173	22,466	2,135	2,754	5,995	6,642
Total Revenue	1,137,447	1,195,206	1,454,878	1,686,061	1,831,531	1,919,949
As a % of GDP						
Tax Revenue	10.5	10.1	12.4	12.3	12.6	11.9
Income Tax	2.1	1.9	2.4	2.2	2.1	2.2
VAT	2.6	2.7	2.0	2.4	3.3	3.2
Nation Building Tax	0.4	0.4	0.4	0.5	0.5	0.5
Excise Duty	2.6	2.5	4.5	3.8	3.5	3.4
Import Duties	0.9	0.8	1.2	1.3	1.0	0.7
Ports & Airports Development Levy	0.6	0.7	0.5	0.7	0.8	0.8
Special Commodity Levy	0.5	0.5	0.5	0.5	0.5	0.5
Other	0.7	0.8	0.8	0.9	0.8	0.7
Non Tax Revenue	1.4	1.4	0.9	1.9	1.2	1.4
Interest/ Rent	0.1	0.1	0.1	0.1	0.1	0.1
Profit and Dividends	0.4	0.5	0.3	0.9	0.4	0.3
Sales and Charge	0.4	0.3	0.4	0.6	0.5	0.7
Social Security Contribution	0.2	0.1	0.1	0.2	0.2	0.2
Central Bank Profit Transfers	0.3	0.1	-	...	-	0.1
Other	0.0
Total Revenue	11.9	11.5	13.3	14.2	13.8	13.4

Source: Department of Fiscal Policy

... Negligible

- not available

Table 2.3.1.3.- Government Tax Revenue - By Source

Rs. Mn.

Source	2017	2018 (Provisional)	2018/2017 Change (%)
Income Tax	274,562	310,450	13.1
Corporate & Non Corporate	143,588	169,672	18.2
PAYE	32,920	41,385	25.7
ESC	44,720	52,979	18.5
Tax on interest	53,334	46,414	(13.0)
Domestic Consumption Based Taxes	530,860	547,567	3.1
VAT - Domestic	275,367	282,487	2.6
NBT - Domestic	49,716	51,192	3.0
Tax on Liquor	113,684	113,944	0.2
Tax on Cigarettes/Tobacco	86,002	92,243	7.3
Other (Excise)	6,091	7,701	26.4
Import Based Taxes	821,253	809,844	(1.4)
Import Duties	136,501	96,991	(28.9)
VAT - Import	168,393	179,163	6.4
NBT - Import	19,320	20,165	4.4
PAL	102,360	113,950	11.3
SCL	71,402	75,807	6.2
Cess Levy	59,554	53,369	(10.4)
Petroleum - Excise	73,983	66,318	(10.4)
Motor Vehicles - Excise	189,740	204,081	7.6
License and Other	43,504	44,457	2.2
Telecommunications Levy	33,399	28,326	(15.2)
Other	10,105	16,131	59.6
Total Tax Revenue	1,670,178	1,712,318	2.5

Source: Department of Fiscal Policy

2.3.2 Tax Revenue

Expansion of tax base has increased tax revenue by 2.5 percent to Rs. 1,712 billion in 2018. The tax revenue generated from excise duty on petroleum products declined in 2018 due to the duty waiver on Auto Diesel.

Income Tax: The Total revenue generated from Income Tax including Corporate and Non-Corporate Tax, PAYE, ESC, Withholding Tax on Interest Income and Capital Gain Tax increased by 13.1 percent to 310.5 billion in 2018 in comparison to Rs. 274.6 billion in 2017.

The Revenue from PAYE tax significantly increased by 25.7 percent to Rs. 41.4 billion in 2018 compared to Rs. 32.9 billion in 2017, reflecting the increase in salaries both in public and private sectors. However, the revenue from the tax on interest income declined by 13 percent to Rs. 46.4 billion in 2018 compared to Rs. 53.3 billion in 2017. This was mainly due to the relatively lower issuance of the government securities. The estimated income tax revenue in 2018 was 372 billion of which Rs. 310.5 billion was achieved in 2018.

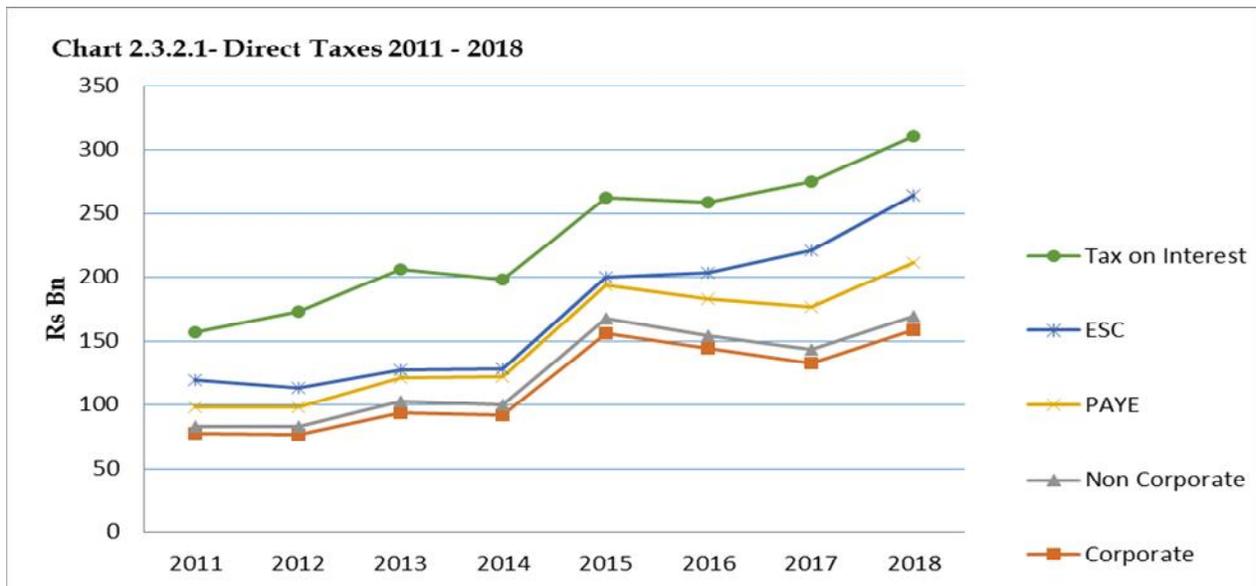


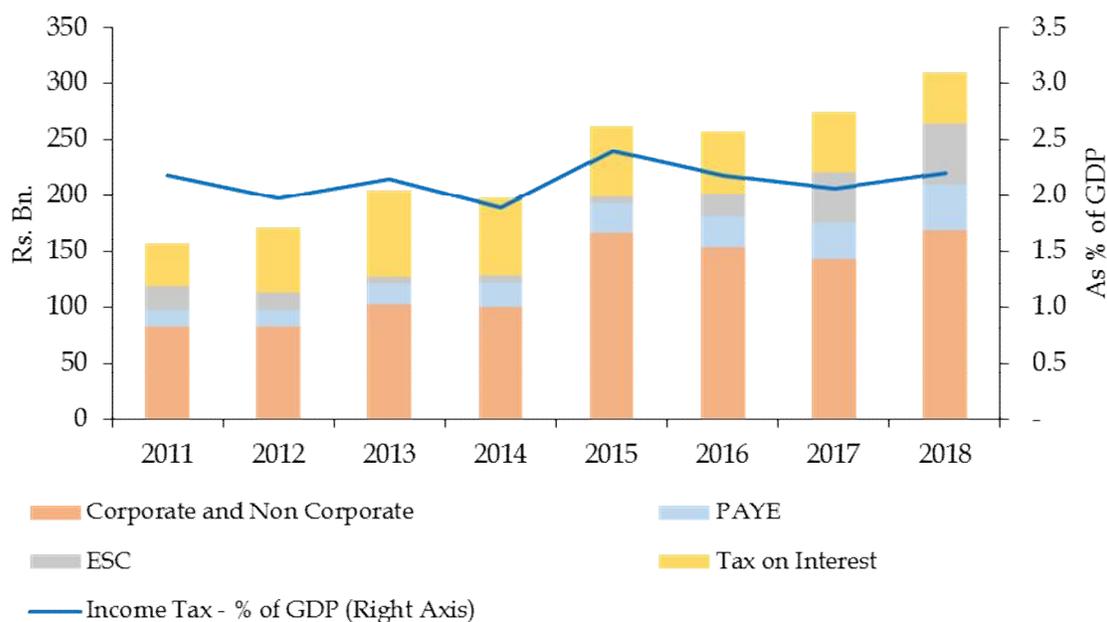
Table 2.3.2.1- Performance of Income Tax

Rs. Mn.				
Item	2016	2017	2018 (Provisional)	Growth %
Total Income Tax	258,857	274,562	310,449	13.1
Corporate & Non Corporate*	154,324	143,588	169,672	18.2
PAYE	28,169	32,920	41,385	25.7
ESC	20,458	44,720	52,979	18.5
Tax on Interest	55,906	53,334	46,414	-13.0

* Including Capital Gain Tax of Rs. 104 Mn

Source: Department of Fiscal Policy

Chart 2.3.2.2- Performance of Income Tax



Source: Department of Inland Revenue

Value Added Tax (VAT)

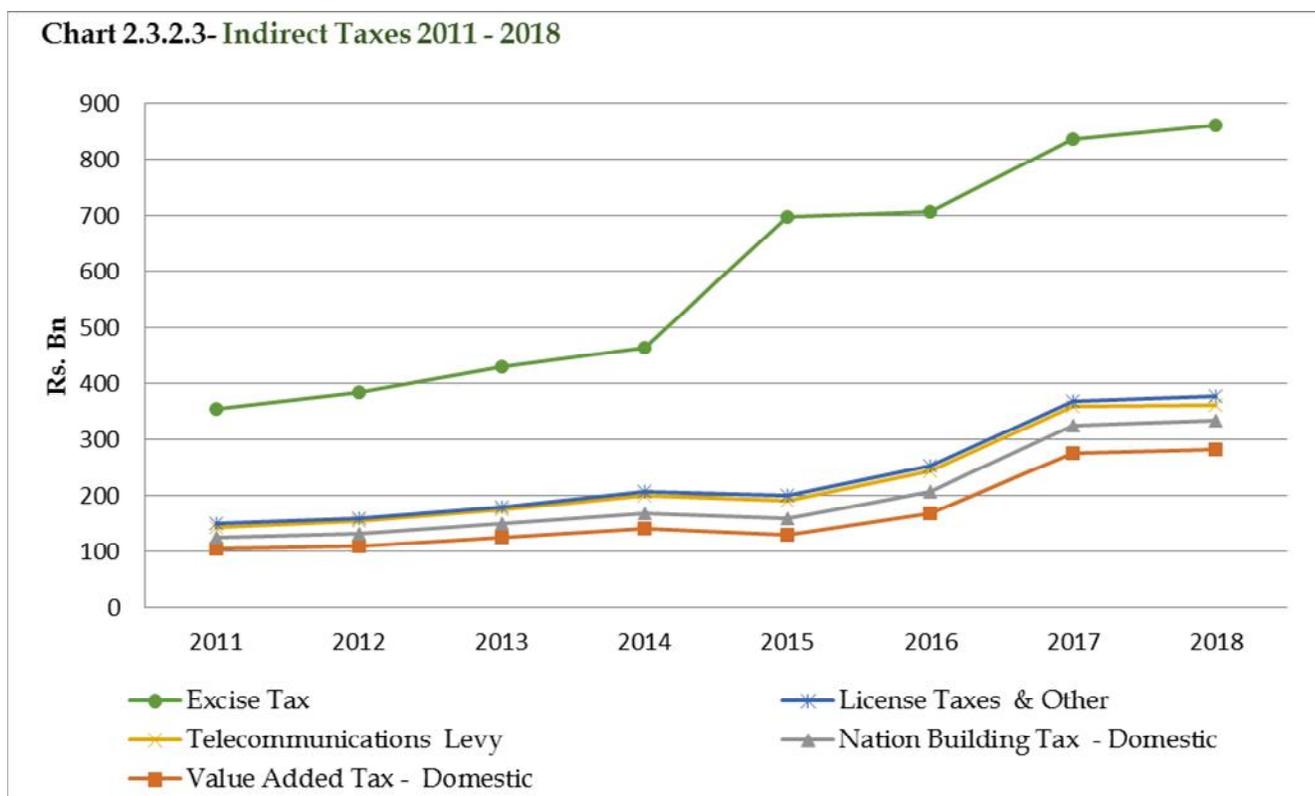
The revenue collected from VAT, on gross basis, increased by 4.0 percent to Rs. 461.6 billion during the year 2018, compared to the same period of 2017. Total VAT revenue for 2018 is estimated to be Rs. 550 billion. VAT revenue on domestic activities increased by 2.6 percent to Rs. 282.5 billion while the VAT revenue on imports also enhanced by 6.4 percent to the tune of Rs.179 billion in the entire year. Removal of exemptions on selected items such as fabrics, wood, aero planes and parts and cameras and projectors despite granting the exemptions for health care services contributed to this performance.

Table 2.3.2.2- Value Added Tax Revenue

	Rs. Mn					
Item	2013	2014	2015	2016	2017	2018 (Provisional)
Domestic	124,658	140,413	131,662	168,817	276,046	283,330
Imports	126,538	136,221	89,174	115,339	168,393	179,123
Gross Revenue	251,196	276,634	220,836	284,156	444,438	462,453
Refunds	439	1,284	1,136	686	679	802
Net Revenue	250,757	275,350	219,700	283,470	443,760	461,651
Net Revenue as a % of GDP	2.6	2.7	2.0	2.4	3.3	3.2

Source: Department of Fiscal Policy

Chart 2.3.2.3- Indirect Taxes 2011 - 2018



PAL: The revenue collected from PAL increased by 11.3 percent to Rs. 114 billion in the 2018, compared to Rs. 102.4 billion in the same period of 2017. Total PAL revenue for 2018 is estimated to be Rs. 115 billion.

Excise Duty: The revenue collected from excise duty increased by 3.1 percent to Rs. 484.3 billion in 2018 compared to Rs. 469.5 billion in 2017 supported by the rise in revenue collection from motor vehicles. Furthermore, revenue from liquor slightly increased in 2018. Despite the midest performance, revenue generated from excise duty remained as the largest single contributor accounting of 28.3 percent to the total tax revenue in 2018.

Excise duty revenue from liquor products slightly increased by 0.2 percent to Rs. 113.9 billion in 2018 from Rs. 113.7 billion in 2017 reflecting the revision of tax base of hard and malt liquor from proof litre to volume based tax. However, production of malt liquor increased by 72 percent to 121 proof litre million whereas hard liquor declined by 11.2 percent to 25.3 absolute liter million due to the downward revision of Excise duty rates on malt liquor and hard liquor. The estimated Excise duty revenue on liquor and cigarette products was Rs. 215 billion in 2018 and was realized Rs. 206.2 billion. This was due to the in line with the government’s policy on discouraging the consumption of tobacco and alcohol products.

Excise duty revenue on motor vehicles increased by 7.6 percent to Rs. 204.1 billion in 2018 compared to Rs. 189.7 billion in 2017. The increase in the import of motor vehicles by 7.4 percent to 494,488

vehicles in 2018 from 460,261 motor vehicles in 2017, the excise duty revenue generated from motor vehicles increased in 2018 due to enhance motor vehicles imports resulted with the excise duty revision in line with budget 2018. The excise duty revenue from motor vehicles decreased from the estimated value of Rs. 230 billion. However 88.7 percent of the estimated value was achieved in 2018.

Meanwhile, Excise duty on sugar content in the carbonated beverages was imposed effective from November 2017 with purpose of discouraging unhealthy consumption habits while Excise duty on plastic resin was imposed to discourage the over usage of plastic and plastic products.

The revenue generated from cigarettes and tobacco increased by 7.3 percent to Rs. 92.2 billion in 2018 compared to Rs. 86 billion in 2017. The consumption of cigarettes approximately remains in stable value at 3,150 Million sticks in 2018.

The revenue generated from petroleum products significantly decreased by 10.4 percent to Rs. 66.3 billion in 2018 compared to Rs. 74.0 billion in 2017.

Chart 2.3.2.4- Cigarette Production and Excise Tax Revenue

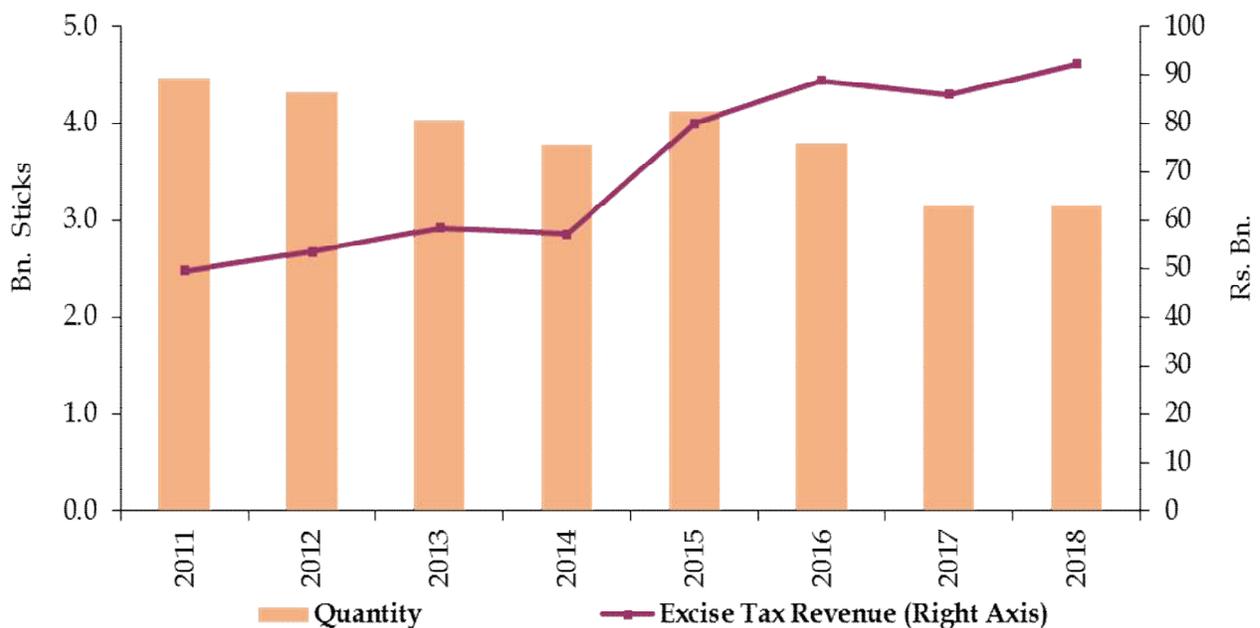


Chart 2.3.2.5- Liquor Production and Excise Tax Revenue



Note: After the 2016 Hard Liquor production is in absolute
Sources: Department of Fiscal Policy and Department of Excise

Table 2.3.2.3- Production and Excise Tax Collection from Liquor and Cigarettes

Year	Quantity Produced				Excise Tax Revenue					
	Hard Liquor (Liter Mn)	% Change	Malt Liquor (Liter Mn)	% Change	Cigarette (Mn. Sticks)	% Change	Liquor (Rs. Bn)	% Change	Cigarette (Rs. Bn)	% Change
2011	53.8	8.9	87.5	22.5	4,469	4.3	55.8	48.0	49.6	22.2
2012	49.7	-7.6	99.3	13.5	4,320	-3.3	60.1	7.7	53.9	8.7
2013	44.2	11.1	120.2	21.0	4,035	-6.6	66.0	9.8	58.6	8.7
2014	43.9	-0.6	124.5	3.6	3,777	-6.4	69.1	4.6	57.2	-2.3
2015	51.8	9	125.8	1.0	4,116	9.0	105.2	52.3	80.0	39.9
2016	55.6	7.3	52.2	(58.5)	3,789	-7.9	120.2	14.3	88.8	11.0
2017	46.9	15.5	71.1	36.3	3,149	-16.9	113.7	-5.4	86.0	-3.2
2018	44.4	-5.4	121.1	70.4	3,150	0.0	113.9	0.2	92.2	7.2

Sources: Department of Fiscal Policy, Department of Customs and Department of Excise

Table 2.3.2.4 Motor Vehicle Imports

Item	No of Motor Vehicles				% Change			
	2015	2016	2017	2018	2015	2016	2017	2018
Motor Bicycles	349,441	329,978	364,346	354,998	8.4	-5.6	10.4	-2.6
Three-Wheelers	132,865	47,976	19,021	20,782	59.6	-63.9	-60.4	9.3
Tractors	14,233	13,185	10,295	6,992	158.3	-7.4	-21.9	-32.1
Transport Vehicles	44,218	32,161	25,964	25,077	72.3	-27.3	-19.3	-3.4
Passenger Van and Buses	4,687	2,849	3,732	2,581	20.0	-39.2	31.0	-30.8
Motor Cars	108,866	42,208	36,131	83,269	165.3	-61.2	-14.4	130.5
Other	510	948	772	789	26.9	85.9	-18.6	2.2
Total	654,820	469,305	460,261	494,488	35.9	-28.3	-1.9	7.4

Source: Department of Customs

Import Duty: The revenue collected from import duty declined by 28.9 percent to Rs. 96.9 billion in 2018. This decline in revenue was close to Rs. 39 billion and only 55.4 percent of the estimated Rs. 175 billion import duty revenue could be realized in 2018. The decline in revenue from Import Duty was mainly due to Import Duty waivers on Petrol and Diesel and also due to decline in Petrol and Diesel imports.

Special Commodity Levy: SCL was introduced in 2007 on a number of essential commodities under the Special Commodity Levy Act, No. 48 of 2007 to encourage the local production and also to protect consumers due to the escalation of prices in the off-season. The revenue realized from SCL increased by 6.2 percent from Rs. 71.4 billion in 2017 to Rs. 75.8 billion in 2018. The realized revenue from SCL in 2018 is close to 5 billion lower than the estimated 80 billion. Revenue from SCL on White and Brown Sugar increased substantially in 2018 due to increase of SCL on White and Brown sugar and also due to the increase in Sugar Importation, while the SCL revenue from Big Onions decreased substantially due to low SCL rates on importation of Big Onions.

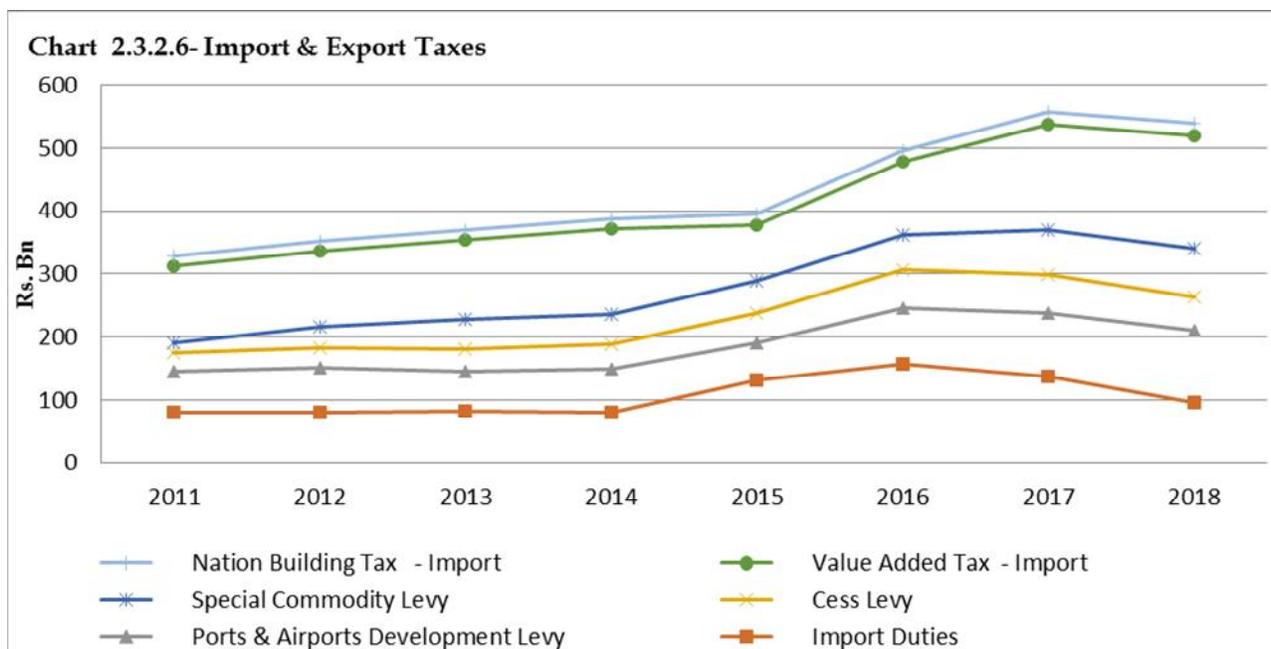


Table 2.3.2.5- Special Commodity Levy Rates

		Rs. Per Kg.	
Item	End Dec 2017	End Dec 2018	
1	Spratts	1	1
2	Potatoes	1	20
3	Red Onions	25	25
4	B' Onions	1	20
5	Garlic	40	40
6	Green Gram	40	40
7	Lentils - Whole	1	2
	Lentils - Split	3	7
8	Chilies - Neither Crushed nor ground	25	25
	Chilies - Crushed or ground	125	125
9	Canned fish	50	50
10	white Sugar	31	32
	Raw/Brown Sugar	33	35
11	Watana - Whole	15	5
	Watana - Split	18	8
12	Chick Peas - Whole	7	2
	Chick Peas - Split	10	5
13	Black Gram	60	125
14	Cowpea	70	70
15	Millet/Other	70	70
16	Maldive Fish	102	102

Table 2.3.2.5- Special Commodity Levy Rates

		Rs. Per Kg.	
	Item	End Dec 2017	End Dec 2018
17	Dried Fish	52	52
18	Orange-Fresh	65	65
19	Grapes - Fresh	130	130
20	Apples - Fresh	45	45
21	Seeds of Coriander - Neither Crushed nor Ground	26	26
	Seeds of Coriander - Crushed or Ground	52	52
22	Seeds of Cumin	162	162
23	Seeds of Fennel	162	162
24	Turmeric - Neither crush Nor Ground	102	102
	Turmeric - Other	360	360
25	Mathe - Seed	50	50
26	Kurakkan	70	70
	Kurakkan Flour	150	150
27	Black Gram Flour	200	200
28	Ground Nut - Shelled	112	112
29	Mustard Seeds	62	62
30	Palmoil/Veg. Oil - Crude	110	150
	Palmoil/Veg. Oil - Refine	135	170
	Plam Kernal - Crude	130	170
	Plam Kernal - Refine	145	185
	Palm Olen	115	155
	Refine Palm Oil	135	175
	Coconut Oil (Crude/Refine)	130	150
31	Fish*	10% or Rs. 100	10% or Rs. 100
32	Mackerel	6	6
33	Yoghurt	625	625
34	Butter	880	880
35	Margarine(Fat 80% or more)	215	215
	Margarine - Other	315	315
36	Salt	40	40
37	Dates	60	60
38	Dried Grapes	230	230
39	Mangoesteen	200	200
40	Dried Orange	200	200
41	Pears	175	175
42	Cherries	250	250
43	Plums and Sloes	200	200
44	Kiwifruits	175	175

Table 2.3.2.5- Special Commodity Levy Rates

	Item	Rs. Per Kg.	
		End Dec 2017	End Dec 2018
45	Pomegranate(Other)	200	200
46	Grated/ Powered Cheese		200
47	Maize	10	10
48	Rice (Samba, Kekulu, Brown Rice, Broken Rice)	0.25	-
49	Coconut Kernel	1	-

Compiled by the Department of Trade and Investment Policy

** Rs 25 per kg duty for Thalapath, Coppara and Thora fish with effect from 14.12.2017*

Nation Building Tax - The total revenue from NBT amounted to Rs. 71.4 billion in 2018 compared to Rs. 69.0 billion in 2017. The revenue collected from NBT on domestic activities increased by 3.0 percent to Rs. 51.2 billion while revenue from NBT on imports moderately increased by 4.4 percent to Rs. 20.2 billion in 2018. The policy measures taken to remove the exemptions on construction contractors, sales of residence apartments, services of inbound travel agents received in foreign currency through a bank contributed to increase revenue generated from NBT. In 2018, Rs. 35.7 millions of NBT revenue was transferred to Provincial Councils (PCs) under the revenue sharing mechanism introduced in 2011 as a part of simplification of the tax revenue. The estimated NBT revenue in 2018 was Rs. 87 billion.

Table 2.3.2.6- Transfer of NBT Revenue to Provincial Councils - 2018

Provincial Council	Revenue (Rs. Mn)	% of the Total
Western Province	17,126	48
Central Province	3,211	9
Southern Province	3,211	9
North Western Province	3,211	9
Sabaragamuwa Province	1,784	5
North Central Province	1,784	5
Uva Province	1,784	5
Eastern Province	1,784	5
Northern Province	1,784	5
Total	35,679	100

Source: Department of Fiscal Policy

CESS Levy: The total CESS revenue declined by 10.4 percent to Rs. 53.37 billion and accounted for 3.1 percent of total tax revenue in 2018 in comparison to Rs. 59.55 billion in 2017. The revenue from CESS on imports declined by 10.24 percent to Rs. 50.78 billion in 2018 reflecting the removal of applicable CESS rates on identified 253 items such as such as meat, dairy products, dates, grapes, pears, beer and wine, etc. The CESS revenue in 2018 from exports has decreased by 10.35 percent to Rs.2.6 billion due to decrease of agricultural, industrial and mineral exports. However, the estimated CESS revenue in 2018 was Rs. 49.50 billion of which Rs. 53.37 billion was achieved.

Table 2.3.2.7- Cess Revenue from International Trade and Government Subsidy for Agriculture Sector Development : 2016-2018

Rs. Mn

Description				Description			
	2016	2017	2018(a)		2016	2017	2018(a)
Cess on Exports	2,672	2,980	2,592	Commercial Crop Development			
Tea-under Tea (Tax and Control of Export) Act, Sri Lanka Tea Board Law	587	550	591	Tea	549	445	615
Rubber-under Rubber Replanting Subsidy Act	10	90	10	Rubber	713	703	579
Coconut-under Coconut Development Act	141	105	107	Coconut	709	598	653
EDB Cess- under Sri Lanka Export Development Act	1,832	2,235	1,884	Cashew	40	54	67
Cess on Imports				Minor Export Crops (Cinnamon, Cocoa, Coffee, Pepper)	380	346	440
Imports- under Sri Lanka Export Development Act	59,058	56,574	50,777	Fertilizer Subsidy for Total Agriculture Sector Development	27,771	30,361	26,879
Total	61,730	59,554	53,369	Total	30,162	32,507	29,233

Source: Department of Customs and Department of National Budget

(a) Provisional

Telecommunication Levy: The revenue collected from Telecommunications Levy declined by 15.2 percent to Rs.28.3 billion in 2018 Compared to Rs. 33.4 billion in 2017 due to the removal of the taxes for internet services coupled with the drop in call duration.

2.3.3 Non-Tax Revenue

The non-tax revenue increased by 28.7percent to Rs. 207.6 billion in 2018 compared to Rs. 161.4 billion recorded in 2017. This was mainly due to the increased revenue from all the sub-categories except profit and dividends. Non-tax revenue stemming from rent income increased by 25.6 percent to Rs. 5.6 billion, social security contributions increased by 9.9 percent to Rs. 25.2 billion, and interest income increased by 10.3 percent to Rs. 8.2 billion in 2018 compared to the previous year. Moreover, non-tax revenue from sales and charges significantly increased by 58.0 percent to Rs. 105.2 billion in 2018 compared to Rs. 66.6 billion recorded in 2017. However, the profits and dividends from the SOBEs decreased by 22.5 percent to Rs. 41.8 billion in 2018 compared to Rs. 54.0 billion recorded in 2017. Other than that, record of Central Bank’s profit transfers of Rs. 15.0 billion for 2018 fiscal year also contributed to the increased non-tax revenue in 2018. The estimated non-tax revenue in 2018 was Rs. 183.1 billion and deviation of actual revenue was mainly due to expansion in earnings from sales and charges.

Chart 2.3.3.1 -Non Tax Revenue

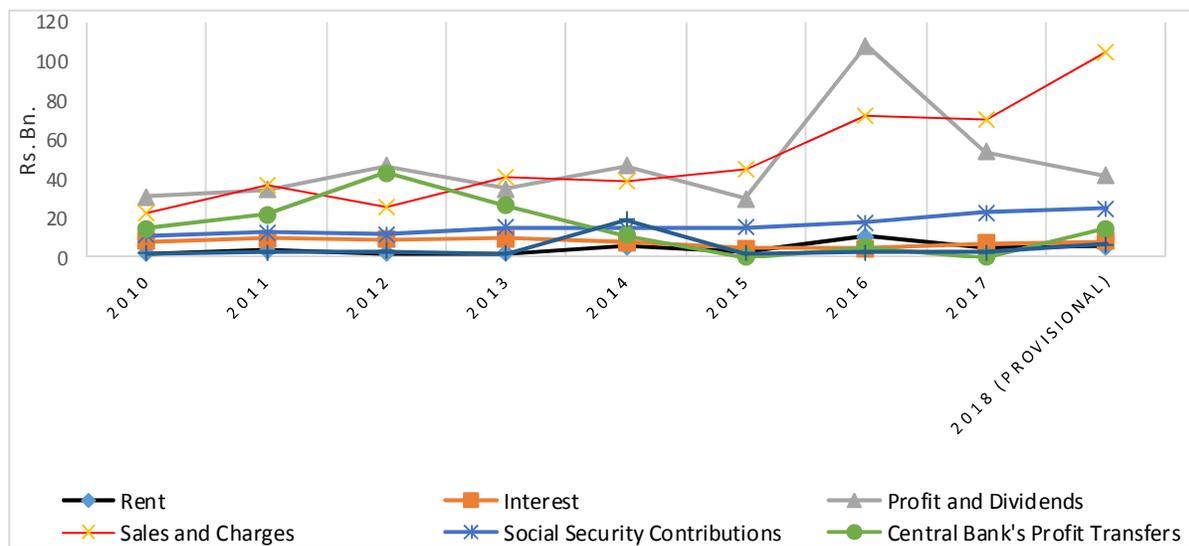


Table 2.3.3.1- Non Tax Revenue

Item	Rs. Mn.							2018 (% of Total Non Tax Revenue)
	2013	2014	2015	2016	2017	2018 (Provisional)	2017/2018 (% change)	
Interest/Rent	11,995	13,647	46,705	15,806	11,845	13,743	16.0	6.6
Profits and Dividends	35,169	46,814	66,255	77,917	53,998	41,828	-22.5	20.1
Sales and Charges	40,721	35,499	131,552	144,844	66,575	105,204	58.0	50.7
Social Security Contribution	15,145	14,919	11,995	13,647	22,940	25,214	9.9	12.1
Central Bank Profit Transfers	26,350	11,500	35,169	46,814	-	15,000	-	7.2
Other	2,173	22,466	40,720	35,499	5,995	6,642	10.8	3.2
Total	131,552	144,845	332,395	334,526	161,353	207,631	28.7	100.0

Source: Department of Treasury Operations, Department of State Accounts and Department of Fiscal Policy

3.0 Fiscal Policy Strategies and Challenges in 2018

3.1 Government's Fiscal Strategies

The Government's fiscal strategy underlines the balance between revenues and expenses, and its debt reduction objectives. The Fiscal Management (Responsibility) Act, No. 03 of 2003 sets out the principles for responsible fiscal management and requires the Government to set its fiscal strategy in accordance with these principles. Some of the principles include reduction of government debt to prudent levels, prudent management of financial risks, adoption of policies relating to government expenditure and taxation and ensuring the government guarantees and government debt not to exceed the prescribed levels. Within the context of responsible fiscal management principles, the Government's main priority of the fiscal strategy has been devoted to achieve a sustainable reduction of fiscal deficit and outstanding public debt assisted by enhanced revenue mobilization over the medium-term. Accordingly, the budget deficit has been ensured a credible consolidation path over the medium-term and it is expected to contain the deficit to 4.1 percent of GDP in 2019 from 4.9 percent in 2018 and will consolidate at 3.5 percent of GDP over the medium-term. Such reduction in budget deficit will pave the way to lowering the outstanding balance of government debt to a level of about 66 percent of GDP by 2022 from an estimate of 76.6 percent of GDP by end 2018 benefiting from the envisaged primary surplus which turned positive in 2017. It is estimated to increase primary balance to 1.8 percent of GDP in 2019 from an estimate of 0.7 percent of GDP in 2018.

In 2018, several reforms were undertaken to realize the fiscal objectives in the areas including taxation and its administration, expenditure management, government debt management, state-owned-enterprises, public finance and procurement management, among others.

Much broader-based reforms introduced in 2018 in the areas including introduction of new Inland Revenue Act and improvements in tax administration at revenue collecting agencies such as Inland Revenue Department, Sri Lanka Customs and Excise Department of Sri Lanka, e-procurement towards effective public finance management, signing of Statement of Corporate Intent (SCI) with major State-Owned Enterprises (SOEs) to bring greater transparency in SOEs' financial operations and introduction of a market based pricing mechanism for fuel. Within this broader perspectives of the fiscal framework, several key areas were prioritized in order to make rapid rural and urban development through the '*Gamperaliya Programme*', facilitate entrepreneurs through the '*Enterprise Sri Lanka Program*', invest on infrastructure needs to provide impetus to the private sector, empower the 'poor' and safeguard vulnerable groups through carefully designed and efficient social safety net programs such as '*Samurdhi*' and other various subsidy programs.

3.2 Major Fiscal Challenges

Recent developments both in the global and domestic economy made challenges to government's fiscal consolidation process in 2018 mainly due to slower than expected economic growth and the delay in implementing several revenue measures.

Improving Revenue Enhancement- Government continued to reinforce the revenue mobilization efforts gaining strength from the measures already adopted. However, there some challenges posed on the enhancement in terms of direct and indirect taxes. Major emphasis would be placed on strengthening the tax return compliance, supported by measures such as conducting audits of employers' obligation to withhold income taxes for employees and services fees paid to professionals and adopting a VAT compliance strategy with risk based audits, among others.

Management of Government Expenditure- Government ensures that an adequate space is provided for social and capital spending within the overall spending envelop while the continuation of social safety nets with improved targeting through the newly established Welfare Benefit Board. Special attention would be placed in the budgeting on natural disaster related fiscal costs by implementing contingent budgeting and enhancing insurance scheme for natural disasters. As such, improvements in the efficiency of government expenditure along with rationalization of recurrent expenditure would ensure bolstering public financial management.

Improving Performance of the State Owned Enterprises- Government plans to improve financial disclosure of SOEs in the time ahead. Particularly, a mechanism will be put in place to monitor key performance indicators (KPIs) as set out in the Statements of Corporate Intent (SCI), already signed with major ten SOEs.

Reinforcing the Medium-Term Debt Management Strategy- Several measures are underway to reinforce the Medium-Term Fiscal Framework (MTFF) to withstand any shocks that may be associated with the refinancing operations. The newly enacted Active Liability Management Act will provide an opportunity to address part of refinancing requirements ahead of time by reducing rollover risks and extending the maturity duration of debt obligations. In support of the use of active liability management operations, Government is reinforcing the Medium-Term Debt Management Strategy (MTDMS) with an overarching objective of containing the exposure of foreign outstanding liabilities at manageable levels.

4.0 Documentary in Terms of Fiscal Management (Responsibility) ACT, No 03 of 2003.

4.1 Annual Report - 2017

The Final Budget Position Report (Annual Report) is required to submit to Parliament and issue for the general public before the expiry of five months from the end of the financial year. Accordingly, the Annual Report 2017 was published in May, 2018.

4.2 Mid-Year Fiscal Position Report - 2018

The report is required to be issued annually on the last day of June of the relevant year or before the expiry of 6 months of passing the Appropriations Bill whichever comes later. Accordingly, the Mid-Year Fiscal Position Report for the year 2018 was published in June, 2018.

4.3 Fiscal Management Report - 2018

Fiscal Management Report 2018 consisting Fiscal Strategy Statement (under the sections 4, 5 and 6) and Budget, Economic and Fiscal Position Report 2018 (under the sections 7, 8 and 9) of Fiscal Management (Responsibility) Act, No. 03 of 2003 should be published in October, 2018, but the report was not submitted due to absence of the budget 2018.

4.4 Performance Report

4.5 Record on RTI

Table 4.5.1-Summary of RTI Requests for the year 2018

Rejected requests	10
Information given	05
Forwarded to the relevant authority	03
Appeals	05
Total	23

5.0 Performance of Administration and Finance

5.1 Cadre Position 2018

The Department of Fiscal Policy consists of an approved cadre of 56. Accordingly, the following staff served in the Department.

Table 5.1.1- Details of the staff- 2018 (As at 31.12.2018)

Designation	Approved cadre	Present Cadre	Vacant
Director General – SLAS	01	01	-
Additional Director General-SLAS	01	01	-
Additional Director General (Open)	01	-	01
Director – SLAS	02	02	-
Director - SLPS	01	01	-
Deputy Dir./Assistant Dir.-SLAS	09	05	04
Deputy Dir./Assistant Dir.-SLPS	05	05*	-
Accountant – SLAcS	01	01	-
Administrative Officer	01	01	-
Translator (English/Sinhala)	01	-	01
Translator (English/Tamil)	01	01	-
Development Officer	08	08	-
Public Management Assistant	10**	11	01
Driver	07	06	01
OES	07***	08	-
Total	56	51	08

* - With pay on overseas study leave - 01

** - As per the Approved Cadre Review, cadre was deducted by 03

*** - As per the Approved Cadre Review, cadre was deducted by 01

5.2 Skill Development Programs-2018

5.2.1 Local Training

Index	Name	Designation	Course	Duration
1	Mr. W.S.Chinthaka	Development Officer	File Management, General Office Administration and E Code - MILODA	2018-June-12/13/14
2	Mrs. R.D.S.D.Deshapriya	Development Officer	CEEP- MILODA	From 25 th September 2018
3	Mrs. Wasantha Ramani	Public Management Assistant	File Management, General Office Administration and E Code- MILODA	2018-June-12/13/14
4	Mrs. Ramani Dissanayake	Public Management Assistant	File Management, General Office Administration and E Code- MILODA	2018-June-12/13/14
5	Mrs. G.G.U.K.Wijerathne	Public Management Assistant	Computerized Government Payroll System- MILODA	2018-July-24/25/26
6	Mrs. W.N.R.Lalani	Development Officer	Budget Preparation, Monitoring and Treasury Accounting System	2018 Aug.
7	Ms. M.G.R.S.Danapala	Public Management Assistant	Budget Preparation, Monitoring and Treasury Accounting System	2018 Aug.
8	Mrs. Ramani Dissanayake	Public Management Assistant	Public Finance Regulations- MILODA	2018 Aug 15/16/17
9	Mrs. Wasantha Ramani	Public Management Assistant	Public Finance Regulations- MILODA	2018 Aug 15/16/17
10	Ms. W.R. Maduwanthi	Public Management Assistant	DEJE- MILODA	From 20 th Aug. 2018
11	Dr. P.K.G. Harischandra	Additional Director General	Invitation to Public-Private-Partnership workshop on the PPP Fiscal Risk Assessment Model	2018 Oct 2 - 3
12	Mr. A.Saraankan	Director		
13	Mr. S.H.S. Senevirathne	Assistant Director	Diploma in English for Professionals- MILODA	from 23 rd December 2018
14	Mr. Arunodha Nishshanka	Assistant Director	Diploma in English for Professionals- MILODA	from 23 rd December 2018
15	Mrs. Lakshika Senarathne	Assistant Director	Diploma in English for Professionals- MILODA	from 23 rd December 2018
16	Mr. J.M.R.P.Jayasinghe	Additional Director General	Bid evaluation in Public Procurement- MILODA	2018 Sep. 19-21
17	Mr. Kumudu Meegahage	Director	Effective Communication Skills and Personality Development through Speech craft- MILODA	Sep. 2018
18	Mr. K.M.Kumarasiri	Assistant Director		
19	Mr. Kamal Ekanayake	Development Officer	Annual Borrowing Plan-MILODA	2018 Nov. 13-16

5.2.2 Foreign Training and Conferences-2018

Name	Designation	Program	Country	Duration	Remarks
Mr.K.A.Vimalenthirarajah	Director General	8th Round of Sri Lanka - India ECTA Negotiations	India	21.02.2018	Delegation
				-	
		Negotiations for the revision of the Agreement for Avoidance of Double Taxation between Sri Lanka and Netherland	Netherland	16.07.2018	Delegation
				-	
		10th Round of Sri Lanka - India ECTA Negotiations	India	19.07.2018	Delegation
				-	
		MCC Compact Negotiations	USA	02.08.2018	Delegation
				-	
Annual Meetings of the World Bank Group and IMF	Indonesia	04.08.2018	Delegation		
		-			
Dr.P.K.G. Harischandra	Additional Director General	Strengthened Fiscal Management in Asia	Japan	01.10.2018	Delegation
Dr M K C Senanayake	Director	International Conference on Innovation and Entrepreneurship (ICIE)	USA	04.06.2018	Delegation
		Double Taxation Avoidance	Latvia	05.03.2018	Delegation
Mr A Saarrankan	Director	2018 Ministerial Workshop on Financial Strategy for Developing Countries	China	06.03.2018	Training
		World Bank's Tax Policy Workshop	India	12.05.2018	Training
Mrs W T A Perera	Tax Advisor	Agreement for the Avoidance of Double Taxation (DTAA) between Sri Lanka and Denmark	Denmark	06.08.2018-10.08.2018	Delegation
		Legal Design of Taxation Frameworks Relevant to the Asia - Pacific Region	Singapore	12.02.2018	Training
				-	
		International Visitor Leadership Program (IVLP)	USA	16.02.2018	Training
	-				
				27.05.2018	
				02.06.2018	
				04.08.2018	
				25.08.2018	

5.2.2 Foreign Training and Conferences-2018

Name	Designation	Program	Country	Duration	Remarks
Mrs.D.G.N. Niluka	Assistant Director	Managing Capital Flows	India	10.09.2018-14.09.2018	Training
Mrs.P.D.L.P.Senarathna	Assistant Director	World Bank's Tax Policy Workshop	India	06.08.2018-10.08.2018	Training
Mr.D.M.S.A. Niroshana	Assistant Director	2018 Seminar on Training Business & Trade Law Professionals for B & R Countries	China	01.09.2018-10.09.2018	Training
Mr K M Kumarasiri	Assistant Director	Macroeconomic Management for effective governance and sustainable inclusive economic growth (Sri Lanka)	Singapore	26.02.2018-02.03.2018	Training
		Financial Development and Financial Inclusion	India	30.04.2018 - 04.05.2018	Training
Mrs L D U M Zoysa	Assistant Director	Two Years Master's Program of Public Policy (MP2)	Japan	2018 - 2020	
Mrs R M K M Lakmini	Assistant Director	seminar on Promotion of Trade & Investment in Inland Regions for Developing Countries	China	10.11.2018 - 30.11.2018	Training
Mrs.C.K. Vithana	Development Officer	2018 Seminar on South - South Cooperation for Developing Countries	China	10.072018 - 30.07.2018	Training
Mr.E.M.K.G.K.M.Ekanayaka	Development Officer	Fiscal Reporting - Improving the Coverage Comprehensiveness, Quality & Transparency	India	10.09.2018-14.09.2018	Training
Mrs.W.N.R.C. Lalani	Development Officer	2018 Seminar on Enterprise Transformation and Innovation Management for Foreign Officials under Belt & Road Initiative	China	07.092018 - 29.09.2018	Training

5.3 Financial Resource Account

5.3.1 Budgetary Provisions and Utilization-2018

Provisions for 2018 have been made to this department under budget estimates Head 238 and the Utilization of such provisions is as follows.

Table 5.3.1.1 Budgetary Provisions and Utilization - 2018

Description of Expenditure	Estimate Rs	Net Provisions Rs.	Actual Expenditure Rs.
Recurrent Expenditure	4,080,460	4,080,460	60,200,617
Personal Emoluments	35,800,000	35,582,938	32,154,117
Traveling Expenses	4,100,000	9,938,227	9,938,227
Supplies	2,920,000	3,270,788	3,260,339
Maintenance Expenses	2,700,000	3,100,781	2,739,598
Contract Services	4,034,240,000	4,027,867,266	11,524,987
Transfers and Others	700,000	700,000	583,350
Capital Expenditure	1,600,000	1,600,000	718,079
Rehabilitation and Improvements	-	-	-
Acquisitions	1,000,000	1,000,000	356,793
Capital Transfers	-	-	-
Skill Development	600,000	600,000	361,287
Sub Total	4,082,060,000.00	4,082,060,000	60,918,697

5.3.2 Advance Account of Public Servants

The details of the advance account of the Public Servants of this department for the year 2018 are given below.

Table 5.3.2.1 Utilization of Advance Account - 2018

Description	Approved Limit (Rs.)	Actual Limit (Rs.)
1. Maximum Expenditure Limit	4,000,000	4,000,000
2. Minimum Receipt Limit	1,700,000	1,700,000
3. Maximum Debt Balance Limit	15,000,000	15,000,000

5.3.3 Audit Queries

06 audit queries from the Department of Management Audit of the Ministry of Finance and 21 audit queries from the National Audit Office, received in 2018, were answered.