



My advice is that tax regime we got in 2011 must be protected and promoted. If for any reason we keep asking for concessions, it can lead to erosion in the tax base, resulting in tax increases again. It is not perfect and we need to get IT platforms together and within the next two years we will get a fully-automated system. Income tax people need a change in attitude so that their interpretation is more convenient. You should not do business if you can't comply with taxes. Those who can afford must pay. We must slowly but steadily move away from concessions and expand the base of tax. Despite the criticism levelled at the Government, we have done our best to provide the needs to the people. My wish is that someday a forum of this nature can debate a fiscal surplus. A country needs a goal and those that have seen such a future have reached that level of stability – Treasury Secretary Dr. P.B. Jayasundera



Most State organisations give land only for short periods and that is not enough time for investment to make a return. Private land is expensive. So a land bank is very important to boost large scale agriculture – Hayleys Aggro Managing Director Rizvi Zaheed



The main proposal for 2013 would be that relating to the taxation treatment of the sector under the new financial reporting regime – HNB CEO Rajendra Theagarajah



Most of Sri Lanka's exports are still concentrated on Europe and the US. The global financial crisis has exposed the need to expand to emerging markets and there must be a Government system within which to do so – Hayleys Chairman Mohan Pandithage



The Construction Development Act has been delayed for more than a decade. If that can be passed we can deal with most of the issues in the industry. But continuous delays have prevented important proposals within the Act from being followed – Sierra Construction Director Priyantha Perera

## Biz community focus on concessions, human resource training and policy consistency

By UODITHA JAYASINGHE

A selection of leading industry heads yesterday presented what they viewed as the top concerns for their respective industries to Treasury Secretary Dr. P.B. Jayasundera during a forum titled 'Speak Up Before 2013 Budget', organised jointly by the Daily FT and the MBA Alumni Association of the University of Colombo. Following the welcome address delivered by MBA Alumni Association of the University of Colombo, President Jude Silva, who observed the importance of having this exchange, the floor was opened by moderator Daily FT Editor-in-Chief Nisthar Cassim for comments from the private sector.

### Agriculture

Broad points mentioned by Hayleys Aggro Managing Director Rizvi Zaheed included the need to make agriculture take off. He emphasised on the role of agriculture in the domestic sector that had acute issues needing to be addressed. Need based approach on development that go beyond subsidies and use of resources in other areas including research and development were highlighted by him.

Some of the measures in the last Budget were deemed as positive but research concessions were limited to State backed research. Giving examples from premier agriculture companies in Sri Lanka he pointed out that private sector involvement in research and development also need to be recognised. He sought a proposal to include private sector research and development for the triple deduction.

"Don't throw the baby out with the bath water but give private companies the chance to test out their ideas as well," he added.

The second issue is on the land bank. We want to promote the idea of nuclear farms but even finding 50 acres for long-term investment is difficult. Most State organisations give land only for short periods and that is not enough time for investment to make a return. Private land is expensive. So a land bank is very important to boost large scale agriculture.

Sprayer manufacturers need to have the ability to increase their production and Zaheed called on the Government to reduce taxes on the import of raw material so that agriculture companies could expand their products.

### Banking

HNB CEO Rajendra Theagarajah acknowledged the positive steps taken by the Government to introduce key tax reforms during the 2011 Budget, which had been long overdue. The main proposal for 2013 would be that relating to the taxation treatment of the sector under the new financial reporting regime. Sri Lankan banks would be preparing financial statements in accordance with the International Financial Reporting Standards (IFRS) equivalent viz SLFRS and LKAS.

The industry through SLBA submitted a comprehensive set of proposals which includes some 20 key components of bank's income statements and balance sheets which may be impacted by this change. Essentially what is proposed is the accounting profits of banks when measured by the application of IFRS equivalent, would be accepted as the basis when compiling taxable profit with minimal adjustments. This is consistent with the practice adopted in other countries which have embraced IFRS. Among the 20 odd so components which have been assessed for impact, the three key items would be:

a) Use of effective interest rates instead of



Treasury Secretary Dr. P.B. Jayasundera addressing the gathering at the forum held at host hotel Cinnamon Grand. Strategic partner Standard Chartered Bank Sri Lanka CEO Anirvan Ghosh Dastidar, University of Colombo MBA Alumni President Jude Silva and Daily FT Editor (Moderator) Nisthar Cassim are also present

simple rate of interest.  
b) Applying fair value accounting for listed shares classified as "available for sale" and  
c) The impairment loss on loans and advances.

"Finally, industry also recognises that the adoption of IFRS in 2012 would result in a one off, non-recurrent cumulative effect when transitioning from the historical cost based accounting to the new regime, which could result in a net gain or net loss. Consistent with the practice adopted in other countries, the recommendation is to defer the payment of tax (in the event of net gain) over a period of time, thus minimising volatility in earnings," he said.

### Conglomerates

Speaking in his turn, Hayleys Chairman Mohan Pandithage highlighted three issues, two with regard to exports. He appealed to the Government to work out a mechanism to move into emerging markets to explore benefits to exporters.

"Most of Sri Lanka's exports are still concentrated on Europe and the US. The global financial crisis has exposed the need to expand to developing countries and there must be a Government system within which to do so," he noted.

The second issue was that for most Board of Investment (BOI) companies the non-tax periods are over and Pandithage questioned as to whether anything can be done to continue PAYE reductions from expat staff. Moving on he referred to an oil and gas multinational moving into Sri Lanka to provide services but compelled to pay high taxes that makes the business unprofitable for them. "Something needs to be done regarding this because the shipments have already started. In neighbouring countries where they are in operation most of the time business is done tax free."

### Construction

Sierra Construction Director Priyantha Perera was on the whole upbeat about his industry noting that it was "doing well now". For first three issues, Perera requested the Government to look into occupational hazards within the industry. He also remarked that the Construction Development Act has been delayed for more than a decade. "If that can be passed we can deal with most of the issues in the industry. But continuous delays have prevented important proposals within the Act from being followed."

Perera also urged for a mechanism to produce construction material in Sri Lanka to reduce overhead costs. Sri Lanka's construction costs are not very competitive when compared with the region due to the need to import much of the raw material.

Moving on to the issue of taxation he pointed out that 12 per cent tax in the industry was acceptable but when it comes to electricity and telecommunication rates increase to 20 per cent, which is an impediment to the sector.

"This has been acknowledged in the past but the Inland Revenue Department has not resolved it even though a year has gone by

These are all aims to reduce the construction cost in the country because of the high taxes for electricity and telecommunication profit margins for projects are low."

### Financial markets

Three pressing issues that need to be addressed to increase depth and breadth of Capital Markets were presented by Heraymila Securities CEO Ravi Abeyuriya. He went on to say that listed debt platform remains an area, which needs pressing reform. There is clear empirical evidence that a well-developed local currency corporate bond market plays a pivotal role in accelerating economic growth than

equity markets and bank lending, he said. "Our listed corporate bond market remains in its infancy at only 0.6% of GDP compared to 4% of GDP in Malaysia. Interest payments on listed debentures are subject to 10% withholding tax deducted at source is a final tax in the hands of individuals, where credit for the tax withheld is not available to individuals."

He proposed that resident and non-resident individuals to be exempted from paying withholding tax on interest income earned from investing in bonds and debentures listed in the CSE. He also appealed for all unit trusts registered by the Securities and Exchange Commission (SEC) to be exempted from paying tax on interest income earned from investing in bonds and debentures listed in the Colombo Stock Exchange (CSE).

"In order to incentivise companies listed in the CSE to increase their free float I propose a 20% tax rebate on corporate tax payable to those companies that maintain a free float excluding related party holdings of 25% for a period of three years from 2013."

Abeyuriya observed that the infrastructure used by stock brokers in Sri Lanka has not kept pace with other frontier markets. There must be a Government system within which to do so, he noted.

"While even service industries enjoy the industry tariff on electricity but it is denied to IT. Due to taxation broadband internet is expensive making Sri Lanka BPO firms uncompetitive. These issues must be addressed to boost the IT/BPO sector."

He pointed out that the information super highway is a basic need for the future and is the base that many industries will be built on. He also urged to consider proportionately reducing the PAYE tax rate for professionals employed in IT/BPO sector in line with reduced tax rate via 2012 Budget.

Leather sector manufacture of complete leather shoes is impeded by lack of access to raw material, observed DSI CEO Kulathunga Rajapakse. Even though high duty exist on imports, they are not properly implemented so large quantities of foreign leather shoes are still found coming into the country. "For manufacturers allow advertising and marketing expenses to be treated as tax-exempt. There must be an incentive to promote manufacture as against import and trade. The former generates jobs hence the need for reconciliation of Government policies to differentiate between the traders and the manufacturers," he said.

Logistics The Government has focused on a logistics hub and in the last Budget where there were proposals for an apparel hub. But the guidelines have not yet come through, said Expolanka MD Hanif Yusoff.

"For Sri Lanka to become a true hub there is a need to speed up transactions and make it seamless. There are 40 State institutions that deal with trade documentation and this makes the process very challenging. A trade net must be formulated to establish a platform so that it can become a proper hub. This is badly needed to make

make losses as large as Rs.60 billion by the end of the year. Reforms are urgently needed and the country is expecting reforms to be implemented."

Gomes recalled that five years ago the country started talking about oil and gas exploration but while six basins were demarcated, only one was given out with the others are still idling. "Moreover we know that there are hydro carbonic deposits along the shoreline but after the survey follow-up work has stagnated."

He commended the Government for promoting local value addition, but noted that recent decisions have gone against that at times. "Out of the 14 licensed players, there are only two local manufacturers but six per cent CESS was imposed resulting in reduced production and profit. This effectively discouraged investments and value addition. At the moment 40 per cent of the industry is controlled by foreign finished product companies. Despite being taken up with relevant institutions there has been no response."

According to Gomes, 17 illegal players are operating in the market due to lack of regulation and they control 20 per cent of the market. "These are all people that do not pay tax. The shadow regulator" which is the Public Utilities Commission, does not have enough power to regulate the sector so they only get the complaints but no steps taken. The Petroleum Act has been the talk of the town for years and even in the latest round of talks last month it was said it would be presented to Parliament soon. However this has been said for the last five years but nothing has happened. It would be in the best interests of the country to get the Act passed as soon as possible – Chevron Lubricants CEO Kishu Gomes

Janashakthi Insurance MD Prakash Schaffer noted that the Government has already exempted Reinsurance Commissions and Reinsurance Claim Recoveries from VAT from 1 January 2011 onwards. However, many companies have been served assessments relating to past years which are running into very large amounts. As this could be a factor affecting the solvency and even survival of some insurance companies, it was requested that the Government takes administrative action to withdraw such assessments raised in the past in line with the exemption granted from 2011.

He added that Regulation of Insurance Industry (Amendment) Act No. 3 of 2011 required all composite insurance companies to split their Life and General businesses into separate companies. "Actions that will have to be taken by companies to comply with this requirement such as the transfer of assets will result in significant tax liabilities. It may also not be possible to transfer accumulated tax losses from one entity to another. These can result in significant losses to composite insurance companies." Therefore, he recommended to waive taxes arising from such transactions and to allow the transfer of tax losses

with a limited time frame to effect the necessary changes required to comply with the Act. As the third point Schaffer touched on profit commissions, which have been given by the National Insurance Trust Fund (NITF) for more than a decade. "However this was arbitrarily stopped about three years ago in direct contravention of Government regulations and international practices. There have been appeals made to the NITF but there has been no positive response."

IT Top items for Sri Lanka Association of Software and Service Companies (SLASSCOM) Chairman Sujiva Dewaraja were human resources, real estate, electricity and communication costs. In the latter Sri Lanka is not competitive compared to the region due to the high costs. His requests, which were repeated from the previous year, were to ask that the IT sector be given the same concessions as the rest of the private sector.

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While other industries enjoy the industry tariff on electricity it is denied to IT. Taxation has also made internet broadband costly and uncompetitive. These two issues must be addressed to boost the IT/BPO industry – SLASSCOM Chairman Sujiva Dewaraja



There must be an incentive to promote manufacture as against import and trade. The former generates jobs hence the need for reconciliation of Government policies to differentiate between the traders and the manufacturers – DSI CEO Kulathunga Rajapakse



For Sri Lanka to become a true hub there is a need to speed up transactions and make it seamless. There are 40 institutions that deal with trade documentation and this makes the process very challenging. A trade net must be formulated to establish a platform so that it can become a proper hub. This is badly needed to make Sri Lanka a true hub – Expolanka Group CEO Hanif Yusoff

– See Pictorial on Page 16

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