



Breaking down the Budget - See page 14

The post 2015 Budget Forum organised by the Daily FT-Colombo University MBA Alumni Association yesterday featured a good panel of experts who were asked to make their observations. They were Cargills Ceylon Plc Deputy Chairman Ranjith Page, DIMO Plc Chairman Ranjith Pandithage, PwC Director Tax Services Charmaine Tillekeratne, hSenid Software International Managing Director Dinesh Saparamadu, Colombo Stock Brokers Association President Dihan Dedigama, Hambantota District Chamber of Commerce Director Rohan L. Fernando and University of Colombo Senior Lecturer Dr. Priyanga Dunusinghe. Following are excerpts from the respective speakers/panelists at the packed forum held at the Galadari Hotel Ballroom with Finance and Planning Secretary Dr. PB. Jayasundera as the Chief Guest.

By SHABYIA ALI AHLAM

PwC Director Tax Services Charmaine Tillekeratne

SPEAKING on the tax proposals on the Budget, I would touch on the salient features. The tax proposals on the Budget can be analysed in five points, of which the first is simplification and broad-basing of the tax system. In 2011 the policymakers took a bold decision to simplify and broad-base the tax system and assurance was given at that time that this trend would continue. It is good to see that even in this Budget the trend is maintained to a large extent. There are also tax proposals that encourage local industries, those that affect financial services, and taxes on motor vehicles.

On the simplification of the tax system, there is one consolidated levy on import of motor vehicles in place of the five taxes that were previously there, which is the NBT, PAL, CESS, VAT and Customs Duty. The Budget proposals said that the relevant amendment would be made to the VAT and NBT Act but the question is whether the sale would also be exempted from VAT and NBT or if it would require an amendment to the VAT and NBT that are effective from January. However, the Customs Duty and consolidated rate came in almost immediately so perhaps there needs to be a press note to clarify that.

In the manufacturing of liquor, there is a catch where the manufacturer will not be able to claim the input VAT on raw materials and overheads which would increase the cost of locally-manufactured liquor. Although tax revenue is expected to generate from this increase, it is unclear whether the cost increase is so prohibitive that people will move to cheaper substitutes.

There is a rate reduction on the tax applicable on all employees and previously it was confined to professionals and there was much debate on the definition of a professional. PAYE tax has been simplified and the 16% is applicable across the board to all.

On the withholding tax, for individuals and charity constitutions, it was on a basic basis.

Private sector powwow with PB



DIMO Chairman and Managing Director Ranjith Pandithage

Previously if an individual was below 500,000 interest income, there was no withholding tax. Now there will be a flat rate of 2.5% for all, other than the exempted interest and individuals who derive exempting income. Here the move is to simplify the tax systems as banks are having issues in monitoring. The only catch here is that those getting an interest income of below 500,000 will also have to pay but that again is a feature of broad-basing the tax system.

In our journey towards simplification and broad-basing there may be a few hiccups which we will have to iron out and it is not an overnight procedure. There are no new tax holidays and only the extension of time on the current tax holiday, the investment time period and the commercial operation time periods. Concessions have been given but no new tax updates.

On tax proposals that encourage local industries, there are tax discounts given to manufacturers for import substitution. CESS on imported rubber has been increased by Rs. 10 per kilo. The guaranteed price has been reduced for milk and the import of milk powder has a CESS of Rs. 550 whereas locally-manufactured milk has been reduced by Rs. 100 and yoghurt by Rs. 3. The guaranteed price of liquid milk has been increased by Rs. 50 to Rs. 60. There is also an import tax levy on imported agriculture products during harvesting period.

On the financial sector the 12% reduction in VAT will provide a marginal benefit in terms of VAT and going forward the VAT and NBT rate should look to be consolidated as another mode of simplification since VAT already contains so many exemptions. VAT is now turning out to be more like a turnover-based NBT and in that sense it will be better to consolidate the two and less administration from a commercial angle.

On motor vehicles, the import duty has been reduced by 25% on electric cars and there is duty concession on buses, small buses, vans and gear boxes. Duty permits are afforded to Sri Lankans living overseas, perhaps as an encouragement for them to return.

In conclusion I would like to say that the span taken in 2011 has continued and simplification is on track. However there are few elements that need to be ironed out with regard to administration which I am sure will be done in the future.



Cargills Deputy Chairman and CEO Ranjith Page

DIMO Chairman Ranjith Pandithage

I would like to congratulate the Government for formulating a bold and confident Budget. First I would like to speak on the triple reduction on skills development. It was very much needed to develop the skills in the country and I feel the nations such as Germany and Japan went through the recession but they succeeded because they had skilled labour. I think the ability to export good, skilled labour will bring good money and it is a step taken in the right direction. The monitoring by the Tertiary and Vocational Training Council (TVCE) should ensure there are no abuses.

Regarding incentives for personally-owned cars, it has come down, especially for cars under 1,000cc. Mobility is very much needed for the development of a country. The Government has done extremely well by providing super roads. Celebrating 75 years of existence recently I went to Jaffna through Mannar, Trincomalee, Ampara and Colombo where one could witness excellent roads but unfortunately most of the vehicles running are not road worthy. In Japan they don't allow use of cross-ply tyres. May be we should do the same.

Overall we are encouraging hybrid cars and the plug-in electric cars, that will be the future and that is a good step taken.

On tax defaulting there is one problem that we have been discussing with the Ministry: there is a massive undervaluation of vehicles. One hole has been plugged in by the basic price as people were misusing the VAT calculation and the transaction price, but even with the basic price, if you take the Hit Ad, this Sunday - I can only speak for Mercedes Benz - the selling price is less than our CIF price.

I see the Customs Chief is here. If the engine chassis number is given, I can tell the price. Ask the High Commission in England and go to Mercedes Benz agents and check the price. This year alone the cars that have come from Mercedes Benz if you get the correct revenue you can build another Cancer Hospital down south. This is because there has been massive tax loss.

Furthermore, freezer trucks are tax-exempt. Importers bring second-hand junk, remove the freezer truck and use the chassis. The same goes for construction machinery. Coming back to the 2015 Budget move, there is a single tax at the time of import, but when selling vehicles there is ambiguity.



hSenid Software International Dinesh Saparamadu Cargills Deputy Chairman and CEO Ranjith Page

Let me congratulate the Government on the 2015 Budget. The last time the VAT was introduced I didn't think there was going to be a Food City or any retail outlets. We were faced with a challenge, but were able to get about it by passing some of it to the customer.

There is a small issue with alcohol. In terms of the locally-produced alcohol, we are unable to charge a higher price and we also don't have VAT to claim. We tried to increase the price charged to the consumer but the Consumer Authority does not permit that. The seller is also not in favour of increasing the price as they fear it will impact sales. This is a situation we have to address.

The second point I would like to raise is that while congratulating the Government on the dairy industry on increasing the farm gate price, there is a situation where the world market prices are tumbling down. The State has increased the duties but we find that if we are to convert powdered milk into liquid, the price to the consumer has to come down. In the investments that we have made in the industry, we find it difficult to reduce the price.

Where we are having a problem is that the bulk of liquid milk that is consumed is by middle and higher consumers shopping at supermarkets or pharmacies. With the VAT threshold rate being brought down to Rs. 100 million, these retail segments where the conversion to liquid milk takes place are impacted due to there being no input VAT. This needs some thought since while from one side we are encouraging to take more milk from the farmer, from the other side there is a situation where it may be cheaper for some to import milk powder and convert that into liquid or yoghurt. We will not be doing that since we have put in place the infrastructure to boost production, thereby ensuring a great saving for the nation.

The third point I wish to make is in developing the youth. I think this is an excellent indication where there is encouragement for soft skill development where companies like us can create employment opportunities and develop these youth. By developing their skills, we will be able to bring foreign exchange through the training programs and the skills we teach. To continue to do that we need to expand our business, but at this moment the retail industry is struggling. It is a challenge to develop the skills and create

Colombo University Department of Economics Senior Lecturer Dr. Priyanga Dunusinghe

I would like to thank the Treasury Secretary for coming up with a Budget that is good for all of us. One of the key features in the Budget is the priority in the skills development area for the training teachers and also establishing e-learning centres in universities. I think we could see clearly that



University of Colombo Senior Lecturer Dr. Priyanga Dunusinghe

sustainable employment in this area. It is a challenge as the company needs to give them at least over \$ 150 per month and we are finding it difficult to retain people as well.

hSenid Chairman Dinesh Saparamadu

I will look at Budget 2015 from the perspective of the IT and knowledge industry. There is a lot of emphasis on skills development and also higher education and R&D. One thing that is particularly welcoming for us is bringing down the PAYE tax from 24% to 16%. There was a lot of confusion previously, for example whether an engineer who is employed as a manager qualifies as a professional. This year's Budget has addressed it. This will help retain and help get people to work in our industry.

One of the key things in the SLASSCOM vision and goals is to be a \$ 5 billion industry by 2022 and want to have 200,000 jobs and 1,000 start-ups. For that, the skill development and training is a fantastic element that has been brought in because we have been encouraging universities to increase capacity. But when they increase the capacity, they find it difficult to find industry training. This triple deduction will help the industry to attract them. I have seen this in start-up businesses. In Sri Lanka the start-ups bootstrap product development through industrial training and development. So the deduction is an encouragement.

Last but not least, encouraging purchase of local software and giving them 100% capital allowance. However, this is not well known in the corporate sector. In Sri Lanka, 50% of IT companies produce software; the intellectual property is owned by our companies. It not known well enough to encourage this further, so I think overall I see this is a salient point. The Nenasala, the ICTFA or smart development of development of content is also a good move.

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Colombo Stock Brokers Association President Dihan Dedigama

This Budget has turned in a direction from previous priority areas from infrastructure development to human capital development and soft skill development. It also gives priority for health. One of the key features is the health checkups. It is good to get people to go for medicals above the age of 40 and have regular medical checkups and that will help identify non-communicable diseases.

We could also see that when proposing there is good coordination with the provincial government. This time there was special emphasis to get provincial councils to function in line with the priorities of the central government. More emphasis has also been given again to export promotion in terms of facilitating exports and industrialisation in giving concessions and assistance in starting some businesses. There are also certain incentives for productivity improvement and innovations. Certain pressures have been put on plantations to improve productivity. These are very much in the positive direction.

At the same time we feel it is good to spend more on research and development carried out by the public research and development institutions. There is one issue whether they can absorb that money in the short run. When you go by the amount that was spent in the previous years, it was not satisfactory; that might be a concern when deciding on the allocation.

We see some assistance given to small producers in agriculture; this is a good move, assisting them in the short run to come up and be competitive. It was a good decision to not provide tax concessions since when you give subsidies, you prevent the initiation of structural formation and one of the keys to economic growth is to let resources to flow from low to high productive areas. The structural change is important and in that respect it is good to get away with some of the subsidies.

Hambantota District Chamber of Commerce Director Rohan L. Fernando

I must say I am thankful to the Government as this time there was focus on SMEs. The SMEs, I feel, are the biggest contribution to national growth. Most of the SMEs in Hambantota and southern areas are based on agriculture. I hope the Government will continue to support the SMEs in the near future. Most of the SMEs have to depend on industries that are based in Colombo. Most of the products that are being exported have to go through the Katunayake airport and now we are based in the Mattala Airport.



Hambantota District Chamber of Commerce Director Rohan L. Fernando

One of the messages to the business community is that the conducive environment is there and it is up to you to be risk lovers rather than being risk averse and start initiating businesses rather than engaging in activities such as buying and selling. Overall I can say that the direction is welcome. I am sure, by all the segments in society, especially with the main focus being human capital formation.

Colombo Stock Brokers Association President Dihan Dedigama

I congratulate the Government on a progressive Budget. We can't look at stock market performance on one budget. There has been a continuation of two to three years of work to bring down interest rates and have a stable currency and the capital market has seen a 20% appreciation already. It has nothing to do with the Budget per se but brings it in more confidence in the economy when the Government continues to make the environment investor friendly and positive. With the low interest rate continuation, we will also see the stock market further draw attention.

From an international investors' perspective, we have seen significant inflows this year in comparison to the locals. I still can't understand what they (locals) are looking for; but to a certain extent, once the comfort of market interest rates remains low, they will have to look for other options to invest. As some results have come out for this quarter, the corporate sectors are also doing well, such as those in the tourism and banking sector. I think overall it is more about the continuation of Government policy and the economy is reflected in the performance of the stock market and I think it is all credit to two or three years of policy decision.

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PwC Director Tax Services Charmaine Tillekeratne

Unfortunately these products cannot go through the Mattala Airport still as there is a need for some more equipment. There is no Customs bio-security system. When there are perishable items like fruits, vegetables and ornamental fish, it is airlifted. In Mattala they have to get clearance from the Customs officers for bio-security; else they cannot export the items. If we have the system in Mattala, it will be greatly appreciated. The entrepreneurs and SMEs want to become exporters. They don't want to work under someone in the future.

For exports, another important aspect has to be seen: the Government Quarantine Department has to issue a certificate for by-products and edible products if they are to be exported. The world is becoming more advanced, especially the European community; they require more and more certificates, especially in relation to bacteria and viruses. The Department doesn't have this equipment and the SMEs have to go to Kandy to the Animal Research Institute to get the certification. In certain instances the sample has to be sent to Singapore. We can get more orders from Europe and other countries. If you look into this matter, this will help the southern development centre. Furthermore, our national carrier SriLankan Airlines has the highest freight charges for perishable products, so the exporters choose other airlines. Some form of support on freight is welcome.

Meanwhile, Hambantota is a wind power area from April to September. If the Government can encourage people to generate power through wind power, it will be a leap for the country.

For our exporters, we cannot be the way we were, 10, 15 years ago; we have to change. We need to be more modern. Our products have to be of higher quality. Our SMEs need to have more advanced warehouses with bio-security systems having ultraviolet light and refrigerating facilities. If the Government gives more grants to SMEs, the country will grow more. Results due to support extended to SMEs in this Budget will be seen soon.

Pix by Daminda Harsha Perera and Upul Abayasekera

Coverage of the Q&A session of the post-Budget Forum will be published later this week.



Continuation from page 11

Dr. PBJ unlocks...

In the meantime, we are not only looking at revenue. We are looking at expenditure. By the 24th, we will table our new financial regulations, a landmark piece of reform. For that financial regulation, we had benefits from many experts; the Fiscal Affairs Department itself has commented on it. These reforms are taking place, so it is a sunshine budget. It has to be.

Then we are also looking at the medium term. You are all talking about the 2015 Budget. Please don't. That era is over. Now we are talking three-year medium term. Repeal of the legal requirement, the Appropriation Bill is presented to Parliament and annual authorisation is obtained for spending subject to those limits, those borrowing limits and regulations and managing and going back to Parliament and reporting it again. That is a continuous process of accountability and fiscal responsibility.

Three year framework

But in the meantime, the Budget is presented in a three-year framework. You can't start on 1 January and finish everything on 31 December. There is procurement, project planning, preparation, progress payment. In order to consolidate this process, we are also strengthening commitment controls. That's why we have done slightly better this year. There weren't too many arrears this year. Now the Treasury releases money on time. Everybody got their salaries on time and contractual payments on time provided they complied with the delivery. Only some are yet to pay their taxes and I will make sure they pay their taxes. Because this is how we improve our system. Treasury operations are better; debt management is reasonably coordinated; at Deputy Governor level I myself get involved now; and there is greater fiscal-monetary coordination not only for conducting macroeconomic policy but also to manage the day-to-day liquidity in the system. That's why we didn't see erratic movements in interest rates. We also brought stability into our wage structure. We had a very distorted wage structure in Sri Lanka prior to 2005. There were 270-odd salary scales in the Government. We rationalised this to 20 odd salary scales and brought a new ratio. Within that we lined them up

depending on the occupational classification. There is still more to be done. As a result you must appreciate as much as this country did not have any terrorist incidents in the last five years, we didn't have strikes or work stoppage. There are some habitual guys who anyway do some demonstration, that has to be there - even in Hong Kong there is something. Imagine a country maintaining sustained stability among the workforce for 10 years? How much growth has been contributed? That's who we should look at it.

We have introduced a new 10-year wage structure, maintaining the required characteristics among professionals - our doctors, our professors, our engineers, etc. We didn't do unmanageable things with the new wage structure. We have, within our limits, through consultative processes introduced a new wage structure - the President fortunately speaks to people from every trade union - to their satisfaction and to our satisfaction; ultimately we have a balance sheet to manage.

Along with that, we have also addressed middle income country private sector wage structure. We can't now have a workforce earning less than a dollar salary. It's not proper. In 1970, it was OK. We had a huge labour surplus and we were a poor country. But now everything has improved; our work standards are good, our workforce is high quality, we don't have child labour, we don't have discrimination - a decent workforce. Therefore we have also addressed minimum wages. Although here I see more young and middle-aged people, a few people like me are getting old and you will also get old. Then we all drink wine. But for us to have wine, we must have a provider. Therefore we are raising the contribution. Singapore provident contribution is so high, that's why they are saving. It is affordable because electricity cost is coming down, taxes are coming down, infrastructure is getting favourable, the lowest interest rate in my lifetime has come, the capital market is getting attractive - it's no longer equity market and is now raising good debt. Therefore it's time to have a comfortable adjustment.

Now we have a stable exchange rate regime and a stable interest rate regime. We need to consolidate. Some people are not happy with 6-7% interest because they live on savings, so for elderly retirees we have created as 12% interest rate for them. Now our country development model is not the Indian development model, not the Singapore model. This is our own model. We are a caring society; we are sensitive to poor people, we are sensitive to women, children, disabled people, the elderly. Therefore the social security aspect of the Budget has been protected. That's another important aspect. We have also addressed massive-scale of ambitious targets. Our idea is not only surpassing \$ 7,000 per capita income, generating the lowest fiscal deficit and getting into below 65% debt, but also to make sure we have the best Human Development Index and a nation in South Asia for the first time and probably in entire Asia except for Japan free from maternal and child mortality. This is what we discussed with our medical profession and they felt these things should be our vision and we have addressed it. So we need to bring the technology, we need to bring access to proper health, bring these things across the country.

Education is very vital. Total reforms - Educational infrastructure, quality of education, subject material, teacher capabilities. These are long-term; you can't quickly get these things organised. Therefore, we are transforming the entire national education infrastructure and the teachers, the material and everything will be modern in the next three years. Many informal sector activities have also been recognised because economic activity must be generated. We need to create turnover and much more business here and through that create a much more advance economy. With those remarks, I once again thank Daily FT and the Colombo University Alumni Association and everybody else who invited me to speak to you before the Budget and also after the Budget and to explain the future and the thrust of this Budget beyond what revenue expenditure and various incidents plus or minus and costs or benefits that may happen in the immediate future for a much more longer journey.

