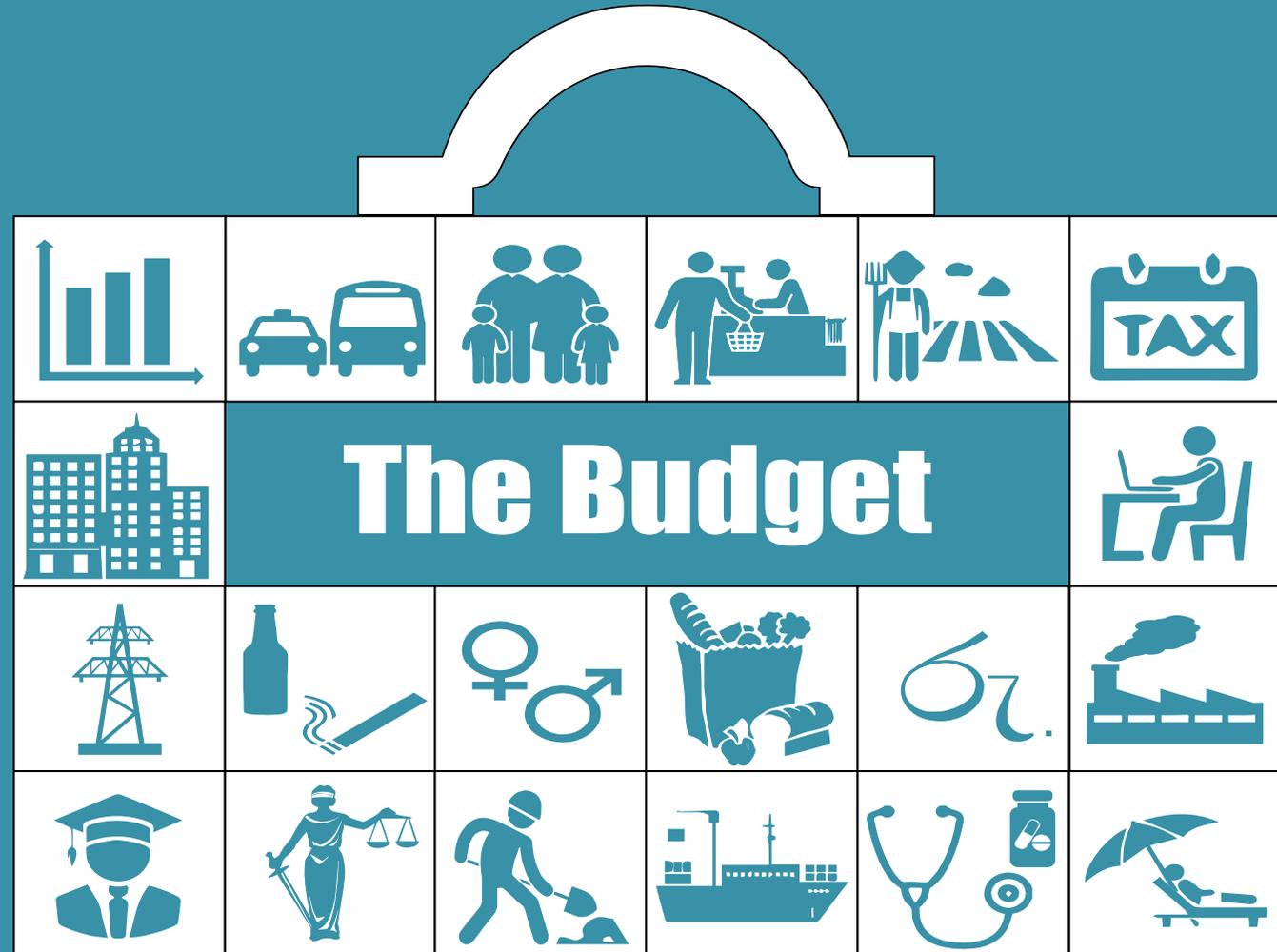


BUDGET 2016: BIG, BOLD AND PROGRESSIVE



FOREWORD

- We believe the maiden full-year budget of the unity government is progressive and visionary to some extent. The budget did lack certain elements of a being a 'revolutionary budget' as coined by the FM ahead the budget speech. However, we do acknowledge that it is unrealistic to reform the decades long structural deficiencies in one single budget.
- Contrast to the populist budgets presented earlier, the new government certainly had looked at driving the investments and several praiseworthy measures have been proposed in this regard. Such point of view is commendable in contrast to the consumption driven model followed in earlier instances. Rather than going down the fiscal consolidation path, we believe the government has given prominence to maintaining a higher growth rate in the economy.
- FM's lengthy budget speech touched on most areas of the economy with more emphasis on education, promoting PPP, digitalization of economy, creating business friendly environment, and also on increasing government revenue. Changes in certain taxes was introduced targeting a simplified tax system along with removal of certain taxes. Numerous projects were introduced to provide infrastructure support to the businesses such as industrial parks, Colombo International Financial Center etc, while measures were introduced to enhance the employability and skill development of the work force along with policy changes such as Foreign Exchange Management Bill etc.
- Instead of creating a rosy picture, the government has given more realistic fiscal targets. A fiscal deficit target of 5.9% in 2016 as opposed to 5.7% in 2014 and 6.0% in 2015 seems achievable in the given context. However, in most of the time governments have succeeded in setting prudent fiscal targets but execution will be the key. The preceding governments in most occasions overstepped the expenditure limits and have been unsuccessful in achieving the revenue targets. In this regard, we believe achieving a 12.7% tax revenue through effective tax collection would be challenging. On the other hand, the proceeds from partial or full-exits from the non-strategic investments can be a source of income for the government.

FOREWORD

- Budget speech, as indicated before, was structured in-line with the PMs policy statement for most part but one major contradiction was seen in terms of the composition of direct and indirect taxation. The government proposed to reduce the income tax (1.9% of GDP in 2016 compared to 2.2% in 2015) while increasing the indirect taxes (10.8% of GDP in 2016 compared to 9.2% in 2015) such as ESC, NBT and VAT clearly contradicts the PM's statement on increasing the direct tax ratio.
- In terms of capital markets, positive measures were proposed such as removing share transaction levy, concluding demutualization by 2016, amending SEC act, introduction of RIETS, SME Board and commodity exchange, increasing deemed dividend tax etc.
- This document contains the impact of the budget proposals on the listed companies. A discussion regarding the impact of the budget on the macro-economic conditions will be sent in due course.

SUMMARY OF THE BUDGET

Item (LKR bn)	2012	2013	2014	2015	2016	Item (LKR bn)	2012	2013	2014	2015	2016
Total Revenue and Grants	1,118	1,204	1,264	1,478	2,047	Total Financing	489	516	591	675	740
Total Revenue	1,102	1,188	1,254	1,468	2,032	Total Foreign Financing	181	68	212	156	183
Tax Revenue	909	1,006	1,050	1,284	1,584	Foreign Borrowings-Gross	365	179	329	453	519
Income Tax	173	206	198	249	233	Project and Programme Loans	235	187	246	258	309
Taxes on Goods and Services	520	572	616	786	993	Foreign Commercial	130	(8)	83	195	210
Taxes on External Trade	217	228	236	248	358	Debt Repayment	(184)	(111)	(118)	(297)	(336)
Non Tax Revenue	143	132	145	126	378	Total Domestic Financing	308	448	380	519	557
Provincial Councils Tax Sharing and Devolved Revenue	50	51	59	58	70	Non-Bank Borrowings	71	95	252	110	275
Grants	16	16	9	10	15	Foreign Investments in T-Bills,T-Bonds	106	56	1	90	100
						Bank Borrowings	132	297	127	319	182
Total Expenditure	1,607	1,720	1,855	2,153	2,787						
Recurrent	1,181	1,256	1,382	1,648	1,928						
Salaries and Wages including Provincial Councils	386	432	486	615	658						
Other Goods and Services	135	104	141	163	313						
Interest	408	444	436	492	520						
Subsidies and Transfers	251	276	318	378	437						
Public Investment	444	481	487	517	868						
Education and Health	46	56	78	98	210						
Infrastructure	398	425	408	419	658						
Other	(18)	(17)	(14)	(12)	(9)						
Revenue Surplus (+)/Deficit(-)	(80)	(68)	(128)	(180)	104						
Primary Surplus (+)/Deficit (-)	(80)	(72)	(155)	(183)	(220)						
Budget Surplus (+)/Deficit(-)	(489)	(516)	(591)	(675)	(740)						

SUMMARY OF THE BUDGET

Item	2012	2013	2014	2015	2016
Revenue and Grants/GDP (%)	12.8	12.6	12.3	13.1	16.4
Total Revenue/GDP (%)	12.6	12.4	12.2	13.0	16.3
Tax Revenue/GDP (%)	10.4	10.5	10.2	11.4	12.7
Income tax revenue/GDP (%)	2.0	2.2	1.9	2.2	1.9
Other tax revenue/GDP (%)	8.4	8.3	8.3	9.2	10.8
Non Tax Revenue/GDP (%)	1.6	1.4	1.4	1.1	3.0
PC Tax Sharing and Devolved Revenue/GDP (%)	0.6	0.5	0.6	0.5	0.6
Grants/GDP (%)	0.2	0.2	0.1	0.1	0.1
Total Expenditure/GDP (%)	18.4	17.9	18.0	19.1	22.3
Recurrent Expenditure/GDP (%)	13.5	13.1	13.4	14.6	15.4
Non Interest/ GDP (%)	8.8	8.5	9.2	10.2	11.3
Interest/ GDP (%)	4.7	4.6	4.2	4.4	4.2
Public Investment/GDP (%)	5.1	5.0	4.7	4.6	6.9
Revenue Surplus (+)/Deficit (-)/GDP (%)	-0.9	-0.7	-1.2	-1.6	0.8
Primary Surplus (+)/Deficit (-)/GDP (%)	-0.9	-0.8	-1.5	-1.6	-1.8
Budget Surplus (+)/Deficit (-)/GDP (%)	-5.6	-5.4	-5.7	-6.0	-5.9

STOCK MARKET

Proposal	Impact
Encourage Banks to lend to customers who are engaging in stock market activities	Positive for the industry.
Abolish Securities Investment Account (SIA) Instead, investors should be allowed to bring in money to Sri Lanka through any bank account existing in the formal banking system	Positive for the industry. Less complications for the foreign investors.
Conclude the demutualization process of the CSE during 2016	Positive for the industry. In the MSCI frontier Asia, only Pakistan and Bangladesh have completed this.
Securities and Exchange Act be revised to address the regulatory deficiencies in the market	Positive for the industry.
Share Transaction Levy which charges 0.3% from the buyer and seller on each share transaction will be removed	Positive for the industry. Earlier, CSE transaction cost was considered to be one of the highest in the frontier markets.
The stamp duty on share certificates will be removed	Positive for the industry.
Encourage the Stock Brokers to merge to strengthen their capacities and capabilities	Positive for the industry.
Create a new SME board on the Colombo Stock Exchange with less stringent compliance requirements for SME listings	Positive for the SME segment and overall stock market liquidity.

STOCK MARKET

Proposal	Impact
<ul style="list-style-type: none"> Exit partially or fully from those non-strategic investments in Lanka Hospitals, Hotel Developers PLC (Colombo Hilton), Hyatt Residencies, Waters Edge, Grand Oriental Hotel, Ceylinco Hospital and Mobitel by listing such investments in the Colombo Stock Exchange during 2016 Set up an Export Import Bank (EXIM Bank) and it is also envisaged to list this company in the CSE Local companies listing in the CSE will receive tax concessions for 2 years while the concessions will be extended to 3 years if listed in a foreign stock exchange such as, London, Singapore, Hong Kong, Mumbai. 	<p>Positive for the industry. Improve stock market liquidity.</p>
<p>Minimum amount of dividend to be distributed by quoted companies will be increased to 15% of the distributable profits.</p>	<p>Positive for the investors. Higher dividends can be expected.</p>
<p>The income from dividends on investment made by non-citizens and foreign companies in listed shares through inward remittances will be exempted from income tax.</p>	<p>Positive for the foreign investors.</p>
<p>Introduce Listed Real Estate Trusts (REITs). Transfer of real estate assets to a REIT structure that distributes 90% or more of income to REIT unit holders will be exempted from Stamp Duty</p>	<p>Positive for the industry. CSE currently offers limited number of instruments thus such measures would improve the product offering of CSE and it will attract both local and foreign investors.</p>

CAPITAL MARKET

Proposal	Impact
<ul style="list-style-type: none"> • Implement a commodity exchange regulated by the Securities and Exchange Commission • Introduce Bond Clearing House primarily for transactions in government securities which could then be extended to other instruments including the corporate debt securities known as debt exchanges • Examine nontraditional bond markets including the Chinese Yuan and Sukuk bonds with the aim of reducing government's cost of borrowings 	<p>Positive for market participants as it broadens the product portfolio for investors.</p>
<p>Waive the income tax and withholding tax applicable to corporate debt activities into 2016</p>	<p>Positive for the debt market participants.</p>
<p>Allocate LKR 100 million to strengthen the SLSAMB</p>	<p>Positive for the industry as such measures can improve the standards of the financial statements submitted by companies.</p>
<p>Establishing Financial and Capital Markets Department to conduit between the government and the private sector</p>	<p>Positive for the industry. It is expected this will improve the communication and co-operation between regulators and market participants.</p>

CAPITAL MARKET

Proposal	Impact
<ul style="list-style-type: none">• Introduce fund of funds - comprising of stakeholders such as Banks, Insurance Companies, State-Owned funds such as EPF, ETF and foreign funds – to lend to responsible Venture Capital firms for a guaranteed minimum rate of return• Local and foreign companies with a domestic presence, angel investors, who also partner startup companies of graduates and any other potential startup entrepreneur by providing funding, coaching and mentoring will also be considered for investment concessions• Reduce the applicable Corporate Income Tax by 50% for Venture Capital Firms for a period of 5 years.	Positive for start-up companies. Presently such companies are facing difficulties in obtaining funds.

FOR ALL SEGMENTS

Other proposals	Impact
<p>ESC</p> <ul style="list-style-type: none"> • Present exclusion of profit making businesses and the minimum threshold of payment of LKR 120 million per year will be removed. • The period of carried forward balances will be limited from 5 years to 3 years • Applicable rate will be increased from 0.25% to 0.50% 	Negative
<p>Income Tax</p> <p>Restructure the present corporate income tax rate structure to a two rate band system with a higher rate of 30% and a standard rate of 15%. Higher rate will be applicable for the profit and income of betting and gaming, liquor, tobacco and banking and financial services, including insurance and leasing industry and the trading activities.</p>	Mixed impact depending on the business category
<p>VAT</p> <ul style="list-style-type: none"> • Remove certain exemptions • The present single rate will be revised to 3 bands 0%, standard rate of 8% and 12.5% higher rate for service sector and the minimum threshold for the liability for VAT will be revised from LKR 15million to LKR 12 million per annum 	Mixed impact depending on the business category.
<p>NBT</p> <ul style="list-style-type: none"> • Reduce the NBT threshold to LKR 12million and the rate will be increased from 2% to 4% • Remove certain exemptions 	Negative

FOR ALL SEGMENTS

Other proposals	Impact
Custom Duty Propose to remove the 7.5% band and increase the 25% band to 30%. Sri Lanka will have a 3-band structure of exempt, 15% and 30%.	Mixed impact depending on the business category
PAL Increase the PAL from 5% to 7.5%, other than plant and machineries used for construction, dairy and agricultural industries which will be exempted	Negative for most industries except for the exempted categories
Positive changes to PAYE	Positive as this can increase the disposable income of the population
Propose to impose an annual fee on all the registered companies collectible by the Registrar of Companies	Negative
All the regular importers should be registered with the SLC from January 01, 2016	Neutral
Remove the tax imposed on the leasing of land to foreigners and also to consider the removal of restrictions on ownership on identified investments imposed through the Land (Restrictions on Alienation) Act	Positive
Introduce an investor friendly Foreign Exchange Management Bill	
Local companies are encouraged to borrow internationally for their business expansion activities based on their balance sheets	
Expedite the enactment of the necessary regulation for Anti-dumping and countervailing	
Establish a Competition Authority to regulate the market for anti-competitive behavior of businesses which includes unfair monopolies, dumping, exclusive dealings, price fixing, etc	Positive as this can be a source of finance
Set up an Export Import Bank (EXIM Bank)	

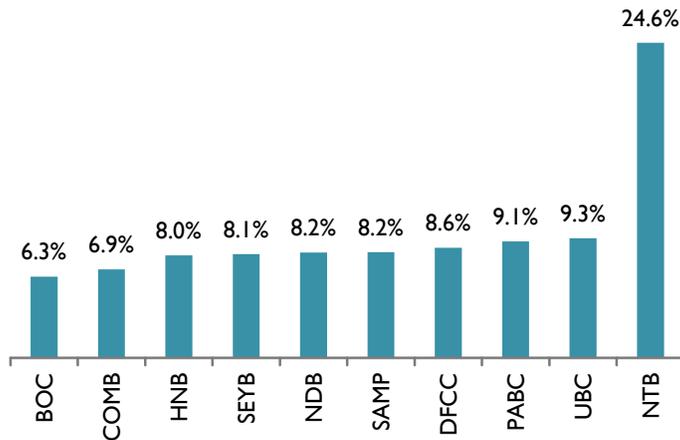
FOR ALL SEGMENTS

Other proposals	Impact
<p>Colombo International Financial Centre</p> <ul style="list-style-type: none">• A demarcated area in D R Wijewardena Mawatha, where a 300,000 square feet facility will be constructed• This includes a commercial court for resolution of commercial disputes• Will commence by April 2016	Positive
<p>50% reduction of the tax payable by a new company (not by splitting or reconstruction of an existing company) set up in any lagging region with a minimum investment of US\$ 10 Mn or 500 new employment (with new EPF Nos) for manufacturing (other than liquor or tobacco) or provision of services, for a period of 5 years form the commencement of commercial operation. The period will be expanded to 8 years, if the new employment exceeds 800 and to 10 years if the investment is for theme park.</p>	Positive
<p>The triple deduction for Research and Development expenses will be allowed only if a technology advancement and yield development is proved</p>	Positive

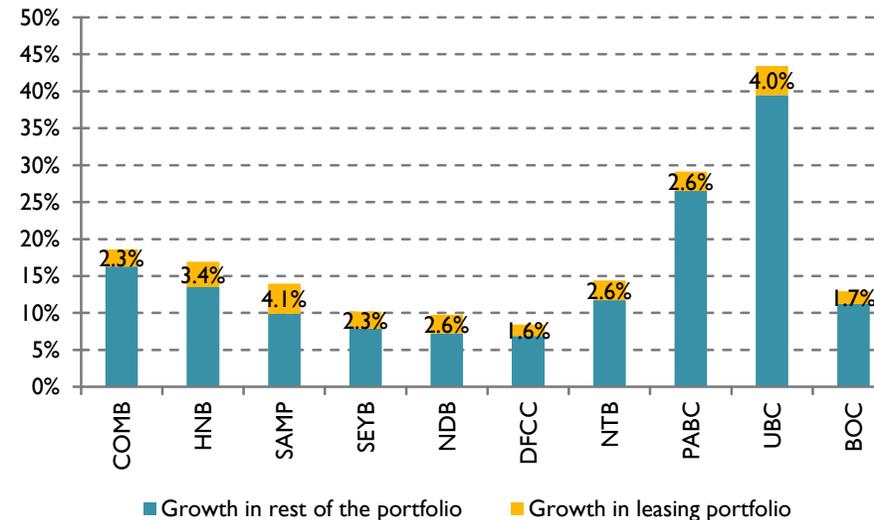
BANKS

- Banks should cease in engaging in leasing business from 01 June, 2016
- **Negative impact on Banks.** Ex: Leasing, which is high yielding business, accounted for approx. between 9%-29% of the YTD loan growth in the LCB segment.
- However, Banks who has a separate finance company subsidiary (ex: SAMP , HNB) can transfer the leasing business to that co.

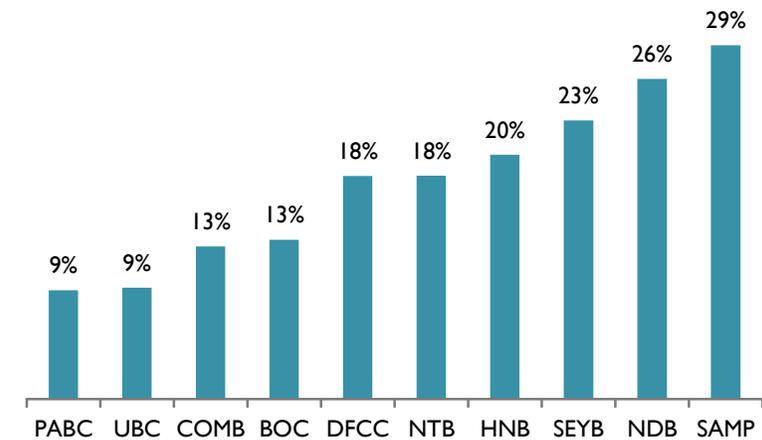
Leasing* as % of portfolio



YTD growth in leasing portfolio



Contribution of leasing to YTD loan growth



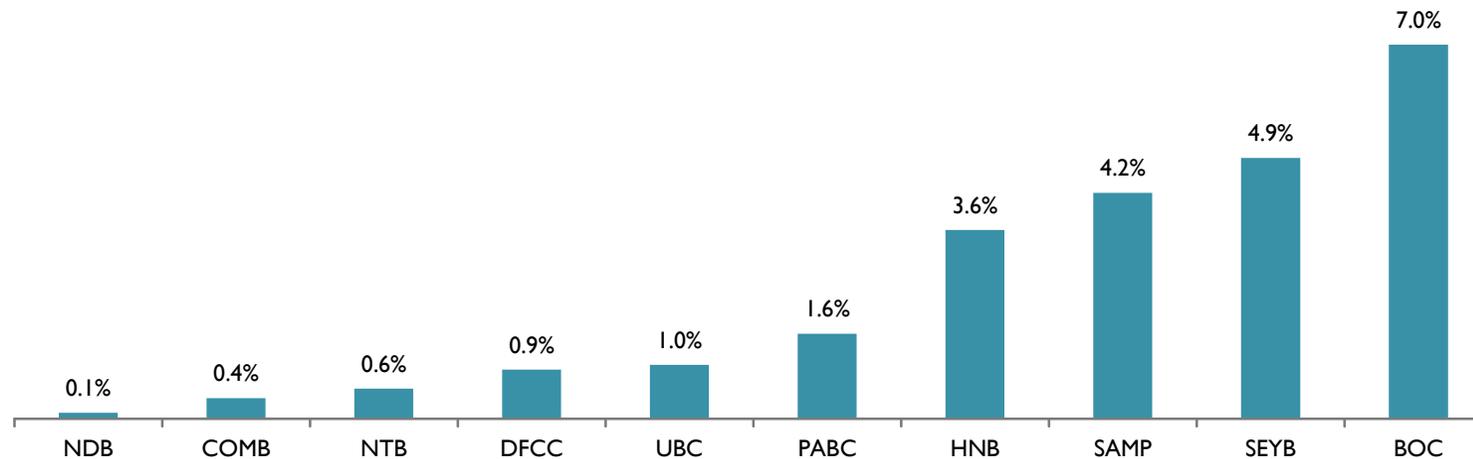
*Leasing include hire purchase – data as at 30th Sep 2015

Above analysis was performed on the LCB segment and the analysis excludes the data of ABL, and Peoples Bank

BANKS

- Banking sector to limit their pawning business to a maximum of 5% of their loan portfolios
- Neutral immediate impact on Banks except for Bank of Ceylon, **Long-term negative impact considering low risk weights and high yields in the gold loan portfolio.**

Pawning as % of loan portfolio



Above analysis was performed on the LCB segment and the analysis excludes the data of ABL, and Peoples Bank

BANKS

Other proposals	Impact
Income tax rate will be increased from 28% to 30%	Negative for the industry
Financial VAT rate -The general VAT rate have been increased from 12% to 12.5% for the service industry. However, further guidance is required to decide whether this is applicable to financial VAT	-
All the banks should lend at least 10% of their loan portfolio to Agriculture, 5% to SME and 5% to Women and Youth	Neutral
Propose to encourage the banks to expand their operations overseas, by making use of the existing tax incentives for such expansions	Positive for the industry
Instruct all banks to expand their branch network by 15% by opening branches in lagging regions. Each of these branches will have to employ at least 6 employees.	Negative for mid-small scale banks. But positive in the long-term.
Encourage the voluntary mergers of banks that will result in stronger balance sheets	Positive for the industry
Propose to mergers among following state banks	Positive for HDFC. Increased competition for others.
Banks to be merged/linked	Remarks
HDFC Bank & State Mortgage and Investment Bank	Objective to create a national housing bank
Lankaputhra Development Bank & Regional Development Bank	To create 'Lanka Enterprise Development Bank'
Sri Lanka Savings Bank & National Savings Bank	
Divinaguma Bank & National Savings Bank	For the protection of deposit portfolio of around LKR 59 billion ensuring professional management

BANKS

Other proposals	Impact
Propose all employers to instruct their employees to open bank accounts for the purpose of remitting the salaries	Positive. These measures can generate more volumes for the industry. Further, concessions to many segments of the economy as suggested in the budget speech will improve volumes for banks.
Propose each Company to maintain a dedicated Bank account for direct debit purpose	
Banks to open a child savings account for every child attending school by depositing a minimum of LKR 250.00 per child per year	
National Payment Platform enabling the public to transfer funds from any of their bank accounts through the mobile phone for the payment of goods and services using their National Digital Identification	
Investors should be allowed to bring in money to Sri Lanka through any bank account existing in the formal banking system	
Effect all social security payments through the banking system	
Remove stamp duty on credit cards for local purchases	
Fee on bank drafts should not exceed LKR 150.00 per draft	
Abolish applying 2.5% withholding tax on deposits	
Allow foreigners to borrow 40% of their investment in condominiums from banks in local currency	
Bill to govern Micro Finance business will be presented and a Regulatory Authority will be established to streamline this sector	Positive for the industry. Regulating the industry would restrict industry getting exposed to unnecessary risk.
Set up an Export Import Bank (EXIM Bank) and it is also envisaged to list this company in the CSE	Negative for the industry as it increase the competition for trade loans.

BANKS

Other proposals	Impact
Revise the exposure on Government securities for non- residents from 12.5% to 10% of the total outstanding stock of Treasury Bills and Bonds	Neutral. More scope for local investors such as banks.
Central Bank of Sri Lanka will give a 100% guarantee on all deposits of all the registered finance companies by end January 2016	Negative for the industry.

FINANCE COMPANIES

Other proposals	Impact
Financial Institution Restructuring Agency - to help failing finance companies to be recapitalized and restructured	Positive for the industry.
<ul style="list-style-type: none"> • Central Bank of Sri Lanka will give a 100% guarantee on all deposits of all the registered finance companies by end January 2016 • Fixed deposits of senior citizens – 1.5mn – 15% - This facility will be granted through Licensed Finance Companies where an interest subsidy of 1.5 percent will be granted by the Government 	Positive for the industry as it can attract more deposits which will reduce CASA.
Propose to impose a cap on the interest rates offered by the Finance Companies	Negative for the industry. Finance companies thrive on charging higher rates from specific business segment and this can eliminate such opportunities.
Bill to govern Micro Finance business will be presented and a Regulatory Authority will be established to streamline this sector	Positive for the industry, Regulating the industry would restrict industry getting exposed to unnecessary risk.

INSURANCE

Other proposals	Impact
Income tax rate will be increased from 28% to 30%	Negative for the industry.
Encourage to open a private CRIB for the insurance industry	Positive for the industry.
Management fee will be defined for insurance industry	Require further guidance
EPF to provide personal health insurance scheme	Negative for the industry as this may reduce business volumes
Insurance Companies to issue medical insurance covers to all citizens up to 75 years	Negative for the industry. Most of the insurances provide covers up to 60 years.

Insurance Cover Age Limit	
CINS	18-60 years
CTCE	19-55 Years
UAL	18-60 years
JINS	18-50 years
HASU*	18-40 years
AAIC	18-65 years
ATL	18-73 years
AINS	n/a

*Additional covers according to customer choice, up to 65 years of age and Life cover extending up to 70 years of age

ENERGY: OIL, GAS & CONSUMABLE FUELS

Proposal	Impact
GAS	
Reduce the price of a 12.5 Kg gas cylinder by LKR 150.00 with immediate effect	Negative for LGL. LPG prices have declined by LKR 550.00 during this year. With these declines, GP margin in energy segment to be at 10-13% (Dec-14 – 27%) and NP margin to be at 7-9% (Dec-14 – 25%). Approx. profit drop in excess of 40% can be expected in the energy segment.
Issuance of vehicle emission certificates will be liberalized and opened up for competition by allowing more players to come in.	Negative for LGL. Profits from emission testing services accounted for 25% of group profit in FY15 and 22% in latest 6MFY16.
Change in income tax – Manufacturing business would be charged 15% while trading business will be charged 30%.	Further guidance required
LUBRICANTS	
Propose to liberalize the lubricant market remove lubricants from BOI negative list.	Negative for existing players. 5-Yr CAGR of the industry (based on volumes) is near 3.8%. Entrance of new players would shrink the market share of existing players. From 2009 to 2014, LLUB market share came down from 73% to 49%. However, LIOC managed to increase its share from 10% to 13% during the period.
Exemption for NBT will be removed and the rate increased to 4%	Negative for the industry
Reduction in income tax from 28% to 15% in the manufacturing business	Positive for LLUB and LIOC Note: LIOC main business operations are already taxed at 15% under the BOI concessions.

ENERGY: OIL, GAS & CONSUMABLE FUELS

Proposal	Impact
BITUMEN	
Change in income tax	ASPH income is taxed at concessionary rate of 12%. This can increase to 15%.
Liberalize the Bitumen market	Negative for existing players but the increasing volumes in construction industry can mitigate the impact. During last financial year 6% of revenue of LIOC and 24% revenue of ASPH were contributed by bitumen segment. LCEY also manufacture bitumen, however financial available to segment is not available.
BUNKERING	
Private sector to engage in deep sea bunkering, for which licenses will be issued through competitive transparent bidding process	Currently JKH (through LMS) and LIOC provide bunkering services. However, LIOC's bunkering revenue is negligible.

HOTELS, RESTAURANTS & LEISURE

Other proposals	Impact
Increase of corporate tax – As per the data available, the service industry is taxed at a higher rate of 30%. Need further guidance as to whether this is also applicable for tourism industry, which was earlier taxed at a concessionary rate of 12%.	Need further guidance
Remove Tourism Development Levy	Positive for the industry as these can increase the sector earnings by means of higher tourist arrivals, reduced tax, skilled labor, effective legislation etc.
<ul style="list-style-type: none"> For a 3-month standard training course, 50% of the course fee subject to a maximum of LKR 15,000.00 will be borne by the Government Encourage the private sector hotels willing to establish training schools on their own - tax benefits in line with the triple deduction made available for skilled development 	
<ul style="list-style-type: none"> MICE Triangle consisting of the BMICH, Nelum Pokuna Theatre and the New Town Hall (Seating capacity of at least 7,000 and will be built in collaboration with the private sector) 	
<ul style="list-style-type: none"> Grant a 50% tax holiday for 5 years for companies incorporated specifically to engage in "MICE" activities 	
<ul style="list-style-type: none"> Construct an exhibition center near the Parliament through a PPP 	
Revise import taxes on garments, shoes, electronic and electrical items and other accessories (shopping hub)	
Liberalize the foreign currency changing business, subject to a license fees and guidelines issued by the Central Bank	
<ul style="list-style-type: none"> Transform and upgrade the cultural triangle sites, Eastern province beaches, Nuwara Eliya, Badulla and upcountry sites Develop Bentota, Dedduwa, Mirissa, and Colombo Fort locality as tourist zones with the participation of the private sector. Galle will be developed as a heritage city 	

HOTELS, RESTAURANTS & LEISURE

Other proposals	Impact
Theme parks to be established in lagging regions . Provide state lands and half tax holidays for 10 years for this purpose.	Positive for the industry as these can increase the sector earnings by means of higher tourist arrivals, reduced tax, skilled labor, effective legislation etc.
All hotels be mandatorily registered under the Tourism Development Authority by 1 June 2016	
Propose to introduce appropriate legislation to regulate this medical/healthcare tourism industry	
Remove import duties on the caravan carriages, yachts, surfing equipment, speed boats and mini cruise boats	
Introduce hovercrafts and other water based sports options into the country. Such crafts could be operated from Chilaw to Colombo, Colombo to Galle and tanks such as Parakrama Samudraya	
Three new domestic airports will be established at Digana, Badulla and Puttlam through a PPP arrangement	
Exempt airlines using domestic airports from ground handling charges and other fees.They will be liable to pay only a license fee of LKR 1.5 million per annum.	Negative for existing players with high presence in domestic market segment and low spending categories.
Government-owned rest houses and circuit bungalows will be brought under a management company which is operated by professionals	

AUTOMOTIVE RETAIL

Proposal	Impact
Increase in income tax from 28% to 30% for the trading business	Negative for the industry
<ul style="list-style-type: none"> Government may not to purchase vehicles but instead obtain vehicles on an 'operational lease' SLTB to explore the possibility of partnering with local companies that has the capacity to build road worthy buses Abolish all the vehicle permits granted under different schemes, including to Parliamentarians 	Negative for the industry as these measures can reduce purchases from government.
All public servants who have made a payment towards the purchase of a Motor Cycle will be ensured that their requests will be granted	Positive for motor cycle importers – Ex. UML (TVS)
<ul style="list-style-type: none"> Encourage upgrading the three wheelers to four wheelers with 280 cc capacity Reduce Excise duty to 2.5% for the vehicles which are run entirely on Solar, Hydrogen or Helium 	Positive for industry. New business ventures.
Remove Luxury & Semi-Luxury Motor Vehicle Tax	Positive for industry

AUTOMOTIVE RETAIL

Proposal	Impact
<ul style="list-style-type: none">• Simple unit rate of excise duty for the vehicles on the basis of cubic centimeters• Duties on the percentage basis on certain vehicles will be revised• Revise revenue license fee for motor vehicles• A fee charged on the certificate of emission test will be enhanced to LKR 5,000.00	Negative for the industry as the increase in prices can reduce demand. As per media reports, new duty structure has increase price of electric cars by aprox LKR 2.5mn, hybrid cars by aprox LKR 0.4mn, cars below 1000cc by aprox LKR 0.2mn etc.
<ul style="list-style-type: none">• Introduce a vehicle import fee to obtain a Vehicle Entitlement Certificate for each vehicle. Propose a Vehicle Entitlement Certificate fee of LKR 2,000 per Motor Cycle and Three Wheeler, LKR 15,000/- for a Motor Car and LKR 10,000/- per vehicle for all other vehicles• A new valuation system will be introduced to curb under invoicing of motor spare parts	Negative for the industry as it can increase operating costs.

DOCKYARD

Proposal	Impact
Target to be within the top 20 trans-shipment ports in the world by 2025	Positive for the industry (ex: DOCK, KAPI etc) as these can create new business ventures.
Encourage ship financing, ship repairing, ship registry status, bunkering, arbitration and allied services which would be governed by modern laws	
Encourage ship building, ship breaking and ship repair activities, for which government will allocate land in Hambanthota and Trincomalee	
To address the short supply and high prices of building materials such as steel import related duties will be revised downwards.	Positive for the industry as this can reduce the raw material costs
Change in income tax	Need further guidance

REAL ESTATE MANAGEMENT & DEVELOPMENT

Proposal	Impact
Colombo Financial Service Center concept	Positive. Can create more business opportunities.
Mansion Tax would not be applicable for condominiums	Positive for industry. Ex: OSEA
<ul style="list-style-type: none"> Remove the tax imposed on the leasing of land to foreigners and also to consider the removal of restrictions on ownership on identified investments imposed through the Land (Restrictions on Alienation) Act Allow foreigners to borrow 40% of their investment in condominiums from banks in local currency 	Positive for industry (Ex: OSEA) as it can generate more businesses
Change in income tax	Need further guidance
Introduce Listed Real Estate Trusts (REITs)	Positive for the industry as it creates new opportunities.

FOOD PRODUCERS

Proposal	Impact
Reduction in income tax from 28% to 15%	Positive for most of the food manufacturers. However, for entities with concessionary tax rates (ex: liquid milk products taxed at 10-12% earlier), this can increase the income tax expense.
Propose to reduce the maximum retail price of a 400g domestically manufactured powdered milk packet to LKR 295 from the existing price of LKR 325. The government will provide the domestic manufacturers with a subsidy of LKR 30 per 400 g packet sold	Neutral impact on NEST (Nespray). Negative impact on LMF (Lakspray). However the milk powder prices in global markets have declined (-47%YoY). Therefore, LMF would be able to mitigate the negative impact to some extent.
Reduce price of infant milk powder by LKR100/- per kilo	Negative for NEST as this can reduce profit margins from the products
Grant upfront depreciation on the machinery and a reduction of import taxes on machinery and equipment related to the dairy industry	Positive for the industry (ex: NEST, LMF)
<ul style="list-style-type: none"> Reduce the price of a canned fish tin of 425 grams to LKR 125/-. Provide a subsidy of LKR 15/- for a canned fish tin of 425 grams Increase the Special Commodity Levy (SCL) on the import of fish to LKR 50/-. 	Positive for can fish manufacturers (Ex: TESS, COCO/RHL etc) as it can increase demand. However, delayed payments from government can be a negative.
Protect the local confectionery industry the Special Commodity Levy applicable on vegetable fat will be reduced	Positive for the industry.
Import coconut for value addition in a specially designated area regulated by the relevant government entities, from where such products will be exported	Positive for RAL, COCO, RHL

RETAILING

Proposal	Impact
FOOD RETAILING	
The wholesale and retail trade will be excluded from VAT.	Positive for the industry. Ex; CARG, CCS, RICH
Changes in income tax	Manufacturing business (from 28% to 15%) will witness lower taxes while trading business will witness high taxes (from 28% to 30%)
APPAREL RETAIL	
Revise import taxes on garments, shoes, and other accessories in the view creating Sri Lanka a shopping hub	Positive for the industry. Ex: ODEL, SHL
Increase in income tax (from 28% to 30%)	Negative for the industry
WHITE GOODS RETAIL	
Importation of used washing machines, used TVs and used mobile phones will be banned with effect from January 01, 2016.	Positive for the ABAN, SINS, SHL
PAL Deduction for Electrical, Electronic Goods and Machinery	Require further guidance
Change in income tax - manufacturing business – from 28% to 15% and trading business from 28% to 30%	Positive for REG, SINI negative for others

LIQUOR AND TOBACCO

Proposal	Impact
<ul style="list-style-type: none"> Reduction of corporate tax from 40% to 30%. Surtax at the rate of 25% of income tax liability 	Neutral impact on the industry
<ul style="list-style-type: none"> Every tax-paid liquor bottle must be labeled with a fool- proof sticker Increase Customs Duty on beedi leaves and beedi manufacturing license fee also to be increased from LKR 1500/- to LKR 5,000/- Discourage the importation of beedi as a finished product, by increasing Customs Duty 	Positive for the industry as this can curb illegal and informal sectors
<ul style="list-style-type: none"> Increase the annual manufacturing license fee for a distillery to LKR 150 mn Excise Duty of LKR 250 million per month from liquor manufacturers who are having distilleries and LKR 50 million per month from persons engaged only in liquor manufacturing based on the minimum quantity of liquor required to be manufactured 	Negative for the industry as this increases operating costs
<ul style="list-style-type: none"> Custom duties will be revised Tax on imported foreign liquor increased 	Negative for the industry

PLANTATIONS

Proposal	Impact
<ul style="list-style-type: none"> Propose to relax restrictions on the usage of RPC land in the cultivation of different crops Encourage RPCs to engage in contract cultivation, especially spices such as pepper, cardamom etc 	Positive as this encourages product diversification
Leases of RPC's that commits to a long term investment for replanting and modernizing will be extended for 50 years, with management fees to be reviewed	Positive for the companies who have undertaken replanting activities
A two year tax exemption period will be granted for companies engaged in tea and rubber plantation	Positive for the plantation companies
Liberalize the tea imports to the country within a regulatory framework with a view to encouraging value addition through blending etc	Positive for the industry. This is one of the key factors mentioned in the industry wish list.

LOGISTICS

Proposal	Impact
<ul style="list-style-type: none"> Remove restrictions on Global Logistics Companies - which have the scale, capacity, capital and knowledge to expand services using Sri Lanka as the hub Entry into international freight forwarding will be liberalized so that foreign participation could extend up to a maximum of 75% with a minimum investment of USD 5 million. Liberalize the container vehicles movement activities and introduce a license fee of LKR 100,000/- per vehicle per year 	<p>Negative for the existing players (Ex: JKH, HAYL, SPEN, EXPO) as it can increase competition</p>
<p>Regulation will be issued to stipulate designated areas for logistics hub and these areas will be strictly outside the BOI zones</p>	<p>Positive for the industry</p>
<p>Proposed to allow railway track sharing with the private sector to use the railway tracks at a fee for the purpose of transporting goods and for tourism</p>	<p>Positive for logistics companies, especially EXPO.</p>
<p>Encourage the postal department to convert their businesses to provide courier services</p>	<p>Negative for the existing players</p>

MANUFACTURING

Proposal	Impact
Reduction in income tax rate from 28% to 15%	Positive for the industry
VAT reduced to 8% from 12%. Minimum threshold for the liability for VAT will be revised from LKR 15mn to LKR 12 million per annum.	Mixed impact for the industry
<ul style="list-style-type: none"> • Rehabilitate and upgrade 27 industrial estates • Industrial Development Zones (IDZs), in Hambantota, Raigama, Mahaoya and Trincomalee • Bio Technology Park which will house pharmaceutical companies, a product design engineering manufacturing park along the expressway 	Positive for the industry
Enhance access to pipe borne water from 44% to 60% by 2020	Positive for CIND. More business opportunities.
Export oriented BOI companies will be permitted to supply to the local market only 5% of its product	Positive for domestic players
10% cess on imported jewelry will be imposed	Positive for local jewelry manufacturers such as RGEM
Construct an exhibition center near the Parliament through a PPP	Positive for local manufacturers as this gives opportunity to showcase their products
Reduce the price of 1 liter of kerosene by LKR 10.00	Positive for the industry

AGRICULTURE

Proposal	Impact
FERTILIZERS & AGRICULTURAL CHEMICALS	
Development of seeds and planting materials by a company :A reduction of 50% of the tax payable on the profits from the locally developed seeds and planting materials for a period of 5 years.	Further guidance required – Both CIC and AGST conduct seed developing.
AGRICULTURE EQUIPMENT	
Propose to remove the import duties pertaining to import of agriculture machinery and equipment	Positive for BRWN

POWER

Proposal	Impact
Encourage the CEB to partner with the private sector to develop Non-Conventional Renewable energy projects	Positive for the industry as it creates more business opportunities.
Letters of Intent issued by the CEB for NCRE that has already been issued but unutilized for more than 1 year as at 31. December, 2015 will cease to be operational	

TELECOMMUNICATION

Proposal	Impact
Increase in income tax rate	Negative for the industry
Propose to increase ITOL from USD Cents 9 to USD Cents 12 and total increase to be credited to the Consolidated Fund	Negative for the industry as it can reduce margins
The transit tariff revenue be exempted from the gross turnover for the purpose of cess payment	Positive for the industry. This increase the competitiveness for international transit traffic.
Propose an annual fee of LKR 50,000/- per tower	Negative for the industry. Dialog has aprox 2,500 towers while SLT has aprox 1,800 towers.
Advanced digitalization programme of economy (including NPP, NDI etc)	Positive for the industry as this can create new business opportunities
Establish special purpose company under the Information and Communication Technology Authority (ICTA). All the fiber optics owned by telecommunication companies and other authorities to be brought into this company	Positive for the industry as this can lead to sharing of telecommunication resources efficiently, thus reducing operating costs and capex
Exemption for NBT will be removed and the rate increased to 4%	Negative for the industry
Exemptions on the Import or supply of telecom equipment or machinery, high-tech equipment including copper cables for telecom industry will be removed.	Negative for the industry

CONSTRUCTION

Proposal	Impact
CONSTRUCTION COMPANIES	
Change in income tax	Currently the construction business is taxed at favorable rates (aprox 12%). Since construction is classified as service industry further guidance is required whether this will increase to 15%.
The construction companies who seek overseas markets to be granted the opportunity to continue with the tax exemption on the income generated outside Sri Lanka.	Positive impact for the industry. AEL has already expanded to overseas operations with the opening of East Africa Branch in the Republic of Djibouti.
Any foreign contractor entering Sri Lanka to undertake construction work should enter into a joint venture agreement with a local contract.	Positive for the industry.
Payment Guarantee Security Act which will provide adequate cover in recovering their payments.	Positive for the industry. Improves the working capital positions.
<ul style="list-style-type: none"> • Cost of import machinery necessary for purifying sea sand in the deep sea to be considered as a double deduction for tax purpose. • The import duties on cranes and concrete mixers will be removed and age limit applicable for imports of heavy equipment machinery used in the construction industry will be extended to 10 years. 	Positive for the industry.
Removal of Construction Industry Guarantee Fund Levy, to encourage small and medium scale contractors and to create an improved level playing field	Negative for the big scale contractors.

CONSTRUCTION

Proposal	Impact
National Housing Bank will provide the necessary guarantees together with a dedicated and focused operation that will support the construction industry	Positive for the industry
Half tax holidays will be allowed to private individuals and companies who engage in construction housing facilities especially focused for the elderly.	
Introduce a PPP program with the private sector for practical training and an allowance of LKR 10,000 will be paid monthly to the trainees by the government during the training period limited to 3 months. allocate LKR 500 million.	
To address the short supply and high prices of building materials such as steel import related duties will be revised downwards.	Positive for the AEL, KAPI, DOCK, as it lowers import costs

CONSTRUCTION

Proposed Construction Projects	Value
Construction of a hospital specializing in kidney disease management in Minneriya	LKR 2,000mn
Construction of 3 cancer hospitals in Nallur, Kandy and Matara	LKR 3,000mn
Expansion of the Ruwanpura Expressway	
Extension of Marine drive up to Panadura	
Extension of the Pamankada-Ratmalana Road	LKR 15,000mn
New bridge construction over the Kelani River	
Reconstruction of 25 bridges and 3 flyovers	
Constructing a new access road from the Kelani Bridge to the Colombo Fort (with in 2 years)	LKR 4,000mn
Expand the Central Expressway to connect Dambulla, Polonnaruwa, Mullaitivu and Jaffna	
Building 20,000 houses especially in the Districts of Mannar and Mulativu	
Improvement of the construction of the Delft Jetty, renovation of roads from Velanai to Kayts, establishment of clinical waste management system	LKR 14,000mn
Undertaking housing programmes to build low cost houses and amenities for the plantation community	LKR 1,000mn
Megapolis Project & projects such as township development, urban solid waste management	LKR 10,000mn
New rural housing schemes - 1,000 Houses	LKR 4,500mn
100,000 units of housing for Shanty dwellers, Middle level government and private sector employees will be provided with 150,000 units and Senior officials of the government sector will be provided with 5,000 units of houses.	
Construction of a mall with a floor area of at least 400,000 square feet.	

CONSTRUCTION

Proposal	Impact
CONSTRUCTION MATERIALS	
Government has proposed numerous infrastructure and real-estate projects (housing and commercial)	Positive for the TKYO as this can create more business opportunities
Reduction in income tax from 28% to 15%.	Positive for TKYO (some of the operations are tax-exempted due to BOI status)
BUILDING MATERIALS	
<ul style="list-style-type: none"> To address the short supply and high prices of building materials such as tiles and sanitary ware, import related duties will be revised downwards. Proposal to remove tiles, ceramic, and sanitary ware, from the negative list of the BOI. 	<p>Negative for tile manufacturers as this can increase competition from low cost imports. Currently imports account for 30% of the market share and this increase affecting RCL's market position.</p> <p>Apart from the tile segment, this would also affect RCL's sanitary ware segment which contributed approx. 11% to the bottom-line.</p>
Reduction in income tax from 28% to 15%.	Positive for the industry
Government has proposed numerous real-estate projects (housing and commercial ex: financial service center, industrial parks etc)	Positive for the industry as this can create more business opportunities

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