Sri Lanka's Minister of Finance and Mass Media presented the 2018 Budget on 9 November 2017.

From an indirect tax perspective, the key changes and proposals are:

**Value Added Tax (VAT)**

Under the Budget, the VAT rate was increased to 15% from the prior 11% rate. At the same time, the VAT registration threshold was reduced to LKR3 million (approx. US$19,500) per quarter (LKR12 million annually). These changes were effective as of 1 November 2017.

Effective 1 April 2018, the sale of condominium housing units will revert from being VAT-exempt to being subject to VAT at the new rate of 15%. This 15% rate will also apply to the import and supply of a range of goods previously VAT-exempt. This measure applies to: plants and flowers, plastic beads, yarn, fabrics, wood and articles, dyes, glass beads, plant and machinery, industrial racks, electronic goods, airplanes and aircraft parts, spectacles, cameras and projectors, and watches.

Finally, a VAT refund system will be instituted for foreign passport holders at airports and sea ports, effective 1 May 2018.
Excise and other taxes

Automotives
Changes have been proposed to the excise duty rates on the import of motor vehicles:

- The ad-valorem rate of excise duty on motor vehicles will be removed.
- Excise duty will be applied based only on the engine capacity (cubic centimeter (cm³)) for petrol and diesel motor vehicles.
- Excise duty base for electric vehicles will be the motor power of the engine (kilowatt (kw)).
- The excise duty rates for the various vehicle types are set out in published tables.
- Applicable duty will be revised for off-road electric sports vehicles to facilitate promotion of sports tourism.

The above changes will be effective retroactively as of 1 January 2018.

In addition, a one-time luxury tax has been introduced on motor vehicles based on the band of the engine capacity or motor power of the vehicle. This is in lieu of the present system of payment over seven years. A Carbon Tax is also imposed on motor vehicles base on engine capacity with the exception of electric vehicles. Both these changes are effective 1 January 2018.

Changes to excise duty rates, effective 10 November 2017, with regard to vehicle permits for public sector employees include:

- Upper ceiling of excise duty concession of vehicle permits for public sector employees will be defined in rupee value without changing the existing concession rate.
- Upper ceiling of CIF (cost, insurance, freight) value of imported vehicles will be removed.
- Restriction on transferability will be removed.
- Payable duty will be the higher value of the duty calculated in published tables.

Liquor and other beverages
Excise duty changes for liquor and other beverages will become effective once published in the Official Gazette and include:

- Introduction of alcohol volume based Excise Duty depending on the type of liquor – hard liquor at LKR3,300 per liter of alcohol, beer and wine at LKR2,400 per liter of alcohol.
- Imposition of excise duty on the import of non-potable alcohol at LKR15 per kilogram.
- Imposition of excise duty on raw materials used for the manufacturing of ethanol – toddy at LKR5 per liter and molasses, maize, rice and fruits at LKR10 per kilogram.

In addition to the above changes, the following items are effective 1 January 2018:

- The rate structure of the liquor license fee and the issuance of new liquor license has been simplified to promote tourism.
- Sugar tax on sweetened beverages is in place at a rate of 50 cents per gram of sugar.
- Excise duty on plastic resin is introduced at LKR10 per kilogram.

Nation Building Tax
A number of items are now exempt (effective date of 1 January 2018) from the Nation Building Tax (NBT) at 2% on importation of a range of goods including:

- Non-motorized equipment for water sports such as kayaks, canoes, kite-surfing and diving.
- Non-powered equipment for aero sports such as hand gliding, ballooning, parachutes and paragliding.
- Sale of yachts built by Board of Investment companies to local BOI charter companies.
- Gemstones for cutting and re-export purposes.
- Equipment that enables advanced technology agricultural practices.
- Greenhouses, polytunnels and materials for the construction of greenhouses.
- Solar panels, storage batteries and equipment for electric charging stations.

NBT will be imposed on liquor effective 1 April 2018.
Customs Duties

Customs Import Duties
An exemption from customs import duty now applies to:
- The importation of crust (semi processed) leather for further processing (Tanning Industry) and the supply of raw materials for the leather products industry.
- The importation of machinery, equipment, accessories and raw materials or intermediate materials, to be used only for manufacturing of biodegradable packaging products and materials.

The above changes came into effect on 1 January 2018.

Cess
- Cess is removed from 253 items under specified harmonized system (HS) codes facilitating the emerging sectors namely, tourism, pharmaceuticals, value adding industries (such as cement, aluminum, etc.) and other industries (such as specialized food).
- Cess is revised on 22 items classified under specified HS Codes, facilitating the availability of goods for value addition and consumption purposes.

These changes also came into effect on 1 January 2018.

Other Customs changes
- Proposal to grant tax concessions on imported capital goods through bonding facilities during the construction period of large scale pharmaceutical investments, the dairy industry and for solid waste management ventures.
- Acceptance of digital signatures for electronic documents in line with the objective of ensuring a paperless clearing system.
- Introduction of new legislation to replace the 148 year old Customs Ordinance to meet commitments to liberalize trade with the necessary safeguards.
- The para-tariffs applicable on tariff lines, which do not at present carry any Customs Duties will be eliminated within the next three years keeping in line with the policy of liberalization and globalization.

For additional information with respect to this Alert, please contact the following:

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Indirect Tax

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