

# BUDGET SPEECH UPDATE 2022

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## Overall Outlook

- After a difficult 2020 and 2021 where revenues declined sharply due to Coronavirus related economic issues the Government expects a sharp rebound in tax revenues for 2022. The target is to record a surplus in the primary account by 2025. Overall revenues to GDP in 2021 of 9.4% is expected to increase to 12.3% in 2022.
- Some measures of fiscal tightening were signaled in the speech with cuts to certain expenditure items in the State sector mentioned. KPIs based performance evaluation is to be introduced to the Government Sector. Construction of new office premises for Government institutions will be halted for the next two years.
- It was also proposed to strengthen the Large Taxpayers Unit (LTU) and Upper Corporate Unit (UCU) to improve revenue collection from large taxpayers. Digitized platforms of revenue agencies will be developed, in particular RAMIS at Inland Revenue and the Single Window at Sri Lanka Customs.
- A Green Agricultural Development Act will be drafted to protect the traditional knowledge of farmers, safeguarding their right to own land and the right to the distribution of water. Initiatives will also be made to obtain green bond financing facilities encouraging state as well as private sector banks to develop these facilities and attract foreign investment.

## Notable Proposals

### The three major tax revisions were as follows:

- A one-time tax surcharge of 25% is proposed to be imposed on companies/individuals with taxable income over Rs.2,000 million for the year of assessment 2020/2021. Rs.100 billion is expected through this tax.
- VAT on banks and providers of financial services by specified institutions is proposed to be increased to 18 percent from 15 percent with the tax to be paid monthly.
- A Social Security contribution will be charged at 2.5% on the annual threshold turnover exceeding Rs.120 million. Rs.140 billion is expected as revenue through this.

Revenue proposals	In Rs. (bn)
<b>Surcharge (one off) Tax</b>	<b>100</b>
<b>Social Security Contribution</b>	<b>140</b>
<b>(VAT) and other charges</b>	<b>14</b>
<b>Special Goods and Services Tax</b>	<b>50</b>
<b>Proposals related to Motor Vehicles</b>	<b>4</b>
<b>License fees, auctions and other nontax revenues</b>	<b>25</b>
<b>TOTAL</b>	<b>333</b>

Source : Department of Fiscal Policy

# Non-Tax Income Proposals

## Motor Vehicles

- Fees on vehicles meeting with accidents with the opportunity of reimbursing this fee from the insurance.
- Fees on vehicle modification, alteration, and refurbishment; and, subject to an amnesty period to pay fines, legally register illegal motor cars and motorcycles, if they are in condition suitable for road.
- Proposed to release all vehicles seized at the Sri Lanka Customs owing to non-payment of applicable taxes and other reasons. Such release will be subject to the applicable taxes and fines.
  - Rs.4 billion is expected to be realized through these proposals.

## Telecommunication

- It was proposed to auction 5G frequencies. Fixed phone operations, mobile phone operations, internet service providers, and satellite broadcasting licenses are also to be auctioned. Fibre optic broadband connection coverage was proposed for all 10,155 schools.

## Leisure

- It was proposed to issue a license under goods and service tax for the designated areas to be developed as special zones for leisure activities.

## Other Key Proposals

- Business registration fee was waived for new businesses established in 2022.
- The price of a cigarette will increase by Rs.5.00, with a revenue of Rs.8 billion anticipated. Excise taxes on liquor are also to be revised with immediate effect.

### Power Generation

- 2,000 MW to be added to the national grid within the next three years from power stations at Uma Oya, Pooneryn, Simaybalandunwa, Mannar, Broadlands, Moragolla.
- Rubber imports banned and finished rubber exports are encouraged in 2022.
- Rs 100 billion will be allocated to initiate a pension fund for senior citizens who currently don't receive a pension, Samurdhi applicants will be evaluated to ensure eligibility. It was proposed to increase the age of retirement to 65 years for State sector employees.

### Roadways and Infrastructure

- Rs.20,000 million allocated to the Ministry of Highways.
- Rs.2,000 million allocated for Urban Housing Development.
- Basic infrastructure to be developed with an allocation of Rs. 5,000 million.

## Other Key Proposals

### Agriculture & Plantations

- Rs. 5,000 million to be allocated to develop agrotechnology.
- Fresh milk production to be encouraged with an allocation of Rs. 1,000 million.

As a % of GDP	2016	2017	2018	2019	2020 Provisional	2021 Revised	2022 Budget
Tax Revenue	12.3	12.4	11.9	11.6	8.1	8.0	10.7
Non-Tax Revenue	1.9	1.2	1.4	1.0	1.0	1.0	1.2
Expenditure	19.6	19.2	18.7	22.2	20.3	20.6	21.1
Reccurent Expenditure	14.8	14.4	14.5	16.1	17.0	17.1	16.2
Interest	5.1	5.5	5.9	6.0	6.5	6.4	6.0
Public Investments	5.0	4.9	4.4	4.2	5.4	3.5	5.0
<b>Total Revenue</b>	<b>14.2</b>	<b>13.7</b>	<b>13.5</b>	<b>12.6</b>	<b>9.2</b>	<b>9.4</b>	<b>12.3</b>
<b>Budget Deficit</b>	<b>-5.4</b>	<b>-5.5</b>	<b>-5.3</b>	<b>-9.6</b>	<b>-11.1</b>	<b>-11.1</b>	<b>-8.8</b>

Source : Department of Fiscal Policy, Ministry of Finance

## Summary

In Rs. (bn)	2021 Revised estimate	2022 Budget	Projected Increase (%)
Revenue and Grants	1,561	2,284	46.3
Tax Revenue	1,325	1,987	50.0
Non-Tax revenue	170	226	32.9
Total Expenditure	3,387	3,912	15.5
Recurrent Expenditure	2,817	2,996	6.4
Public Investment	582	931	60.0
Budget Deficit	(1,826)	(1,628)	(10.8)
Budget Deficit as % of GDP	(11.1)	(8.8)	(20.7)
Total Foreign Financing	(48)	(179)	272.9
-Project and Programme Loans	332	358	7.8
-Foreign Commercial Loans	157	150	(4.5)
-Debt Repayments	(536)	(687)	28.2
Total Domestic Financing	1,874	1,807	(3.6)
-Non-Bank Borrowings	1,569	1,397	(11.0)
-Sri Lanka Development Bond	(64)	(91)	42.2
-Bank Borrowings	368	501	36.1

Source : Department of Fiscal Policy

## Key Expenditure Proposals

<b>Proposal</b>	<b>Allocation (Rs.Mn)</b>
Modernization of agriculture	5,000
Modernization of plantation sector and providing relief	10,000
Fisheries and aquaculture development	1,000
Livestock development	1,000
Development of textile industries including handloom and batik	1,000
Infrastructure facilities for new product investment zones	5,000
Small and medium scale industry zones	5,000
Water for all program	15,000
Vari Saubhagya	20,000
100,000 km roads (including estate sector roads)	20,000
Development of renewable energy	500
Development of urban houses	2,000
Development of rural houses	5,000
Rural development projects	42,063
Development of local government divisions	19,668
Rural livelihood development	19,894
Relief for micro SME entrepreneurs	5,000
Home economy	15,000
Home shop	15,000

Source : Department of Fiscal Policy