

**Name of the Institution : Ministry of Finance, Economic
Stabilization and National Policies**

Parliamentary Series : 182

**Submission of observations of Hon. Minister and steps
taken with regard to the reports tabled by the Committee
on Public Accounts in terms of Standing Order No. 119(4)**

Parliamentary Series 182

Committee on Public Accounts

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Name of the Department : Department of Excise

Parliamentary Series Number : 182

Submission of observations and steps taken with regard to the reports presented to the Parliament by the Committee on Public Accounts in terms of the Standing Order No.119 (4)

Excise Department
19th April 2022

Shortcomings identified by the committee mentioned in the report	Actions taken by the institution to rectify the shortcomings /current status
<u>The Standard of local and foreign liquor</u> The steps that have been taken by the Excise Department with a view to ensuring the standard of local and foreign liquor in the local market in order to safeguard public health. The chief Accounting officer/ Accounting officer said that actions are being taken by the Department to maintain the quality of liquor with the support of the Department of Government Analyst and Institute of Industrial Technology. It is said that presently, the standards have been prepared for the country made foreign liquor and beer and for the first time in the world, the test to prepare a standard for artificial toddy has been started. In addition to this Accounting officer said that the training of excise officers, raiding of illegal liquor, establishment of liquor prevention villages and implementation of awareness programs for the general public on the harmfulness caused by the use of liquor and drugs are carried out.	At Present, the specific standards have been introduced by the Excise Department of Sri Lanka, the Government Analysts Department, the Sri Lanka Standards Institute and its affiliated Institute of Industrial Technology and its team of experts for rectified spirits alcohol, arrack and beer manufactured in Sri Lanka and all foreign liquor manufactured locally. All the officials of the Sri Lanka Excise Department have notified to the all liquor manufacturers about these standards. At present, legal measures and field investigations are being carried out regarding this. The research on preparing the standards for toddy is currently being carried out very successfully. These standards will be published in the gazette in the future and the necessary preliminary actions and discussions are being conducted with respective parties. In addition, appropriate measures have been taken by the Sri Lanka Excise Department to prevent market monopoly in the sale of manufactures of liquor manufacturing companies and actions have been taken to issue instructions for all liquor manufacturers and selling outlets by the head office.
<u>The laboratory that is expected to be started to test the standard of liquor.</u> According to an order granted by the Committee on Public Accounts (COPA), it was expected to be established a laboratory in the year 2021 to test the quality of drugs but it could not be carried out and it is being made in this year (2022) that the chief Accounting officer/ Accounting officer said that the difficulty of finding the high cost for this purpose was the cause of this delay. With the approval of the Ministry of Finance, it is intended to get provisions for this from the Reward Fund of the Excise Department that it was further stated by chief Accounting officer/ Accounting officer.	The 100 million rupees allocated in the budget of 2023 for the construction of the fully equipped laboratory to the Excise Department of Sri Lanka Presently, the position of establishing the laboratory is as follows, 1) The building was identified. 2) The procurement for its partition has been completed. 3) the first round of discussions for consultation for the Laboratory was conducted. 4) Actions have been taken for the for preparation of relevant T.O.R. (Team of Reference). 5) Accordingly, further steps are being taken regarding the project.

He disclosed that the installation of this laboratory will enable the release of quality liquor to the market and speed up the prosecution regarding the illegal liquor.	
<u>Performance of the first quarter of the year 2022</u> The accounting officer pointed out that the revenue of Rs. 37 billion and 42 billion approximately has been obtained comparing the first quarter of 2021 and 2022, according to that an obvious increase in revenue can be seen this year. Although the increase of tax rates had made some impact on revenue, the growth rate of output and revenue increased by 9% and 17%, respectively that the accounting officer further stated. It was revealed in the committee that the import of ethanol into Sri Lanka has been stopped presently. It was also mentioned here that due to the present fuel crisis, the transportation difficulties in the country occurred so that sufficient quantity of sugarcane required for the manufacturing of rectified spirits is not being provided to the manufactories so a crisis situation has been arisen. It was also revealed in the committee that if such problematic conditions do not arise, rectified spirits can be manufactured in this country with the sufficient quantity for the manufacturing of liquor.	The fuel crisis in the year 2022 and the insufficient supply of sugarcane to the manufactories, in addition to the stopping the import of maize and the increase in the cost of imports due to the escalating in the dollar, have also adversely affected to the manufacturing of spirits. If such problems do not arise, locally manufactured rectified coconut and palm spirits can be used for the manufacturing of local liquor without imports and presently there is a surplus of spirits in some distilleries. There is the possibility of locally manufacturing spirit products that can meet the demand of the liquor manufactured in Sri Lanka. Further, there is a requirement to increase the manufacturing of local spirits as well as to improve the quality of the spirits manufactured. For that task, it is a necessity to develop the technical facilities of the distilleries as well as to increase the amount of raw materials used in the manufacturing of spirits.
<u>Vacancies of the posts</u> There were 352 vacancies including 102 posts of Excise guards in the Excise Department as at 31.12.2021. <u>Recommendations</u> The Committee pointed out that the Excise Department is one of the three main government institutions that contribute the most to the public revenue, so it is essential to fill the vacancies in order to increase the public revenue and necessary actions to fill relevant vacancies. Also, the attention of the committee was drawn to the increasing trend of illegal liquor sales. Accounting officer said that the granting targets to the officers of the department, they are serving to raid illegal liquor/drugs and also due to the lack of officers in the department, difficulties have been arisen to accomplish these activities.	Following steps have been taken to fill these vacancies. Senior Level (I) It has been informed that a limited competitive examination will be conducted by the Department of Examination in July 2023 to recruit 08 posts of superintendent of Excise on a limited basis. (II) Necessary arrangements have been made to call applications for the promotion to the post of Deputy Excise Commissioner. (III) In accordance with the P.A.C 22/19, due to the retirement of the officers with the completion of 60 years of age the positions of Assistant Commissioner of Excise, Deputy Commissioner of Excise, Commissioner of Excise and Additional Commissioner General of Excise on 31.12.2022, only 08 officers were left out of the approved cadre of 25. Therefore, 04 Assistant Commissioners of Excise have been appointed as Deputy Commissioners of Excise

	for full-time acting /performing duties. Likewise, officers have been appointed as 10 vacant posts of Assistant Commissioners of Excise among the superintendents of excise to perform duties full time. The relevant appointments have been submitted for the approval of the Public Service Commission. (IV) The Secretary to the Ministry of Finance has informed to the Secretary to the Ministry of Public Administration and Home Affairs with the letters my No. ED/02/03/18 and dated 27.10.2021 and 06.01.2022 to appoint a suitable officer for the post of Assistant Director (Information Technology). Accordingly, the Ministry of Public Administration and Home Affairs has informed that the officer would be appointed at the time of new recruitment. (V) An officer has been interviewed and selected for the post of Legal Officer but cannot be recruited as per National Budget Circular 04/2022. However, approval has been received to recruit legal officers as per Cabinet decision No. CP/DCE/23 dated 08.02.2023 regarding the completion of essential vacancies in public service. Tertiary level • (I) Interviews were conducted on 24, 25.02.2023 for the promotion of 21 posts of Chief Inspector of Excise. • (II) Approval has been received for the recruitment of 49 posts of Inspector of Excise as per decision of Cabinet of Ministers no. CP/DEC/23 dated 08.02.2023 regarding the completion of essential vacancies in the public service. It has been informed that the department of examination has arranged to conduct open examination for the recruitment in the month of July 2023. Secondary level I. Approval of the Ministry of Finance has been received for the promotion for 36 vacant posts of Excise Sergeant and It has been informed that the limited examination for the recruitment will be conducted by the department of examination in July
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	2023 II. Approval has been received for the recruitment of 111 posts of Excise guard as per decision of Cabinet of Ministers no. CP/DEC/23 dated 08.02.2023 regarding the completion of essential vacancies in the public service. the open examination for the recruitment will be conducted by the department of examination in July 2023. III. The Secretary of the Ministry of Finance has informed the Director General of combined Services to fill immediately the vacant 16 posts of public Management Service Officers and 01 post of Development Officer which are currently vacant. Primary level There are 15 vacancies of Excise Driver posts and approval has been received to fill those vacancies as per decision of Cabinet of Ministers No. CP/DEC/23 dated 08.02.2023 regarding the filling of essential vacancies in the public service.
<u>Current situation of the Computer data system.</u> The present situation of the Computer Data System that links with the Excise Department, Sri Lanka Customs and the Inland Revenue Department together. The accounting officer said that data has been exchanged quarterly with the Department of Inland Revenue and Sri Lanka Customs performs to obtain import and export information. <u>Recommendations</u> According to the time frame presented to the committee regarding the preparation of the computer data system, its activities to be completed by January 2023 and for this purpose, it is expected to obtain assistance of the University of Moratuwa or University of Colombo.	The Proposed Revenue Administration System of Excise Department – RASED to be prepared by the department and the following progress has been achieved up to now. 1. Draft of the Software Requirements Specifications – SRS has been prepared. 2. The SRS reports have been forwarded to certify by the officials of the department that it is planned to start the next procurement activities to get a service provider to develop the software for those activities and confirmation (signed off) at the same time. 3. Here, the needs of the department should be identified as far as possible so it is necessary to attend enough time for it and by doing so, Change Requests of constant system can be minimized.
<u>Fool proof Sticker management System</u> The Committee made attention presently on the implementation of the foolproof sticker management system for liquor bottles and liquor related manufactures by the Excise Department.	The mobile software developed to check the accuracy of liquor was introduced to the consumers on 27.08.2022 and it can be downloaded by Google Play Store from Android operating system and Appstore for IOS operating system.

The Chief accounting officer /accounting officer said that the preparation of an application (APP.) that can be used by the public to identify the authenticity of the sticker, has been started and said activities are expected to be completed soon. He further explained that with the implementation of this sticker management system, an increase in manufacturing and revenue of excise can be seen.	The related information of all imported liquor and display for sale in Sri Lanka and the accuracy of local liquor can be known by the aforesaid software.
<u>Excise tax reduction on the export of liquor.</u> The committee observed that during the export of those manufactures. the amount of Rs. 3,689,638,848 has been deducted from the tax collected on the export of liquor in the year 2021 and also, it was revealed that due to the fact that the information about the excise tax was not maintained in the accounting division, there were no details about the gross revenue and only the net tax revenue was entered into the accounts. The committee further emphasized that the importance of the above integrated computerized data system to confirm the export of those manufactures. The accounting officer said that the relevant data has been obtained presently linking with the Sri Lanka Customs and instructions have been given to correct the errors and weaknesses in the accounting entries. However, as a solution to the dollar crisis in the country, the attention of the committee was drawn to the importance of further expanding the export of liquor by Sri Lanka. The committee inquired with respect to the document verification for imported liquor and conducting laboratory tests of foreign liquor and locally manufactured liquor. During the importation of liquor into Sri Lanka, relevant import documents are inspected and permission will be given to sell the liquor in the local market only after obtaining a brand approval that the chief accounting officer /accounting officer explained. The Chief accounting officer /accounting officer said that if locally manufactured foreign liquor is manufactured without traditional methods, those will be released to the market under the category of Emulated Foreign Liquor accordingly, the local manufacturer tends to manufacture foreign liquor in compliance with the traditional methods.	The Procedures for keeping accounts are being prepared in relation to the tax reduction on exported liquor. Actions are being taken to get the agreement of the Treasury in this regard and it is expected to maintain the documents in the accounting division as indicated by the audit in the year 2023. The amount of 100 million rupees has been allocated in the budget of 2023 to build a fully equipped laboratory for the Excise Department of Sri Lanka for the laboratory tests of foreign liquor and country made manufactured liquor presently, the position of establishing the laboratory is as follows. 1) At present ,the building was identified. 2) The procurement for its partition has been completed. 3) The first round of discussions for the consultation for the lab was held. 4) Actions have been taken for the preparation of T.O.R. (Team of Reference) 5) Accordingly, the future steps related to the project are being taken.

<u>Malpractices taking place when importing Non-potable alcohol.</u> Although non-potable alcohol imported into Sri Lanka is calculated in kilograms but calculations in Sri Lanka are carried out in liters based on volume. However, the volume changes in accordance with the temperature of the environment and the volume increases in this country compared to the volume in the cold climate foreign countries and the importer earns fraudulent profit from this additional volume. It was pointed out by the committee and instructions were granted to the chief accounting officer to make attention regarding that.	In terms of the section 3(i) of the Excise Notification dated 07/2018 entitled Excise tax on Non-potable Spirits, the non-potable spirits mentioned in Schedule (I) thereof, except under the authority of a license issued for the time being to a person under the provisions of the Excise Ordinance by the Commissioner General of Excise and it is stated that no person shall carry out of importing , exporting , manufacturing , possession , storing , selling , transporting , offering for sale or displaying of any spirit. In accordance with the section 5 of this notification as it is stated that in case of violation of the terms and conditions of this notification as well as the conditions mentioned in the licenses and permits issued under this notification, action should be taken under the sections 48 or 56 of the Excise Ordinance. Accordingly, excise licenses have been issued for importation, storage and wholesale of non-potable spirits to all the premises mentioned in the first paragraph of 2.8. Action will be taken to release containers after charging the composition fees for the same and submitting the technical crime reports regarding the import of non-potable spirits by violating the conditions cited in Excise Notification 07/2018 and the license by those licensed premises.
<u>Tender of the Ratnapura Toddy Tavern.</u> Granting the Tender of the Ratnapura Toddy No.1 Tavern at the amount below that the amount of without calling for declared tender. The Chief accounting officer /accounting officer said that on a decision taken by a committee appointed by the Commissioner General of Excise, that tavern was granted to the amount of Rs. 28,000,000/-. Furthermore, the sale of illegal liquor in said area will be increased, and he further explained that even the revenue of Rs. 28,000,000/- will be lost if the tender is not granted for that amount.	The assessment amount of Commissioner General of Excise was Rs. 46,084,120.00 for the said Toddy Tavern but no tenders submitted and tenders called again at that time no tenderer has submitted to the assessment amount of Commissioner General of Excise to receive this tender, the Divisional Secretary has notified the Commissioner General of Excise in writing in this regard Accordingly, L. A. Amararatne and K.A.P. Somaratne offered the highest price for the tender and the approval of Commissioner General of Excise has been informed in writing to the Divisional Secretary to transfer this toddy tavern for the amount of 32,000,000.00 rupees. But those persons have submitted an appeal to the Commissioner General of Excise expressing their unwillingness to take this toddy tavern for that amount. A special committee appointed by the Commissioner General of Excise regarding the said appeals considered for all the matters, such as the matters mentioned in the appeals of the tenderers and the government revenue, and this tender was offered to the amount of Rs. 28,000,000.00 and the Commissioner General of Excise has notified it to the Divisional Secretary in writing. Accordingly, L. A. Amararatne and K.A.P. Somaratne obtained the license for

	Ratnapura No. 01 toddy Tavern by signing and entered into agreement by the Divisional Secretary. It has stated that the committee mainly considered the following matters. Thus, the existing competition for toddy tavern changes form from time to time, being the only one party which has offered the highest amount for the year 2020 and the matters such as no other competitors have submitted for it , the possibility of losing the government revenue and cannot be obtained by lack of selling the toddy tavern for the year 2020, regarding all the matters, the possibility of increasing illegal liquor manufactures and sales in the area, It is further kindly informed that it is recommended that this tender to be offered to rupees 28,000,000.00 which is at the mid value of the estimate of the department and the bid of the applicant. Thus, in the re-tendering of the years 2021, 2022, all the toddy taverns and foreign liquor shops that were not sold and actions have been taken to be sold after obtaining the approval of the Finance Minister and deducting a common % value by the assessment of the Excise Commissioner General of Excise. So that this issue has been solved presently.
<u>Levying taxes on Beedi manufacturing. Recommendations</u> It was revealed in the committee that some Beedi manufacturers have expressed their willingness to pay some taxes to the government for Beedi manufacturing. Accordingly, the committee directed to draw attention to prepare of a program that can be used to charge the tax money to the government.	The government has issued a notification under the Tobacco Tax Act No. 08 of 1999 dated 12.31.2022 to levy a tobacco tax at the rate of 2.00 for each Beedi manufacturing in Sri Lanka from 01 January 2023.
<u>Computer Software System to rectify the process of calculating Excise Revenue.</u> Even though a sum of Rs.87.2 million has been allocated through the budget and supplementary allocations from 2016 to 2018 by the Department in order to implement a Computer Software System to rectify the process of calculation of Excise income, it has not been implemented.	Proposed Revenue Administration System of Excise Department – RASED to be prepared by the department, following progress has been achieved up to now. 1. Draft of the Software Requirements Specifications – SRS has been prepared. 2. The SRS reports have been forwarded by the officials of the department to certify them and it is for confirmation (signed off) at the same time, it is planned to start the next procurement activities to obtain a service provider to develop the software for those activities. 3. Here, the needs of the department should be identified as much as possible so it is necessary to allocate sufficient time for that purpose and by doing so the requests of constant system changes can be minimized.

<u>Prevention of a monopoly being created in the market by the Liquor manufacturing companies.</u> The Chief accounting officer /accounting officer said that actions are taken by the department so far to prevent certain liquor manufacturing companies from creating a monopolistic market. The Excise Department has conducted a special study in this regard and granted a set of proposals to the Ministry of Finance and issued necessary circulars to prevent this situation.	The Commissioner General of Excise has notified it in a circular that the liquor of all manufacturers should have been in all licensed retail outlets.
<u>Non purchase of equipment and measuring cylinders that check the strength of liquor</u> 814 sets of liquor strength measuring instruments and 138 measuring instruments included in the procurement plan but not yet purchased. The Chief accounting officer /accounting officer said that the current situation of the country, there is a difficulty for purchasing these equipment. However, the previously purchased a set of equipment is being repaired according to the prescribed standards and now every manufacturing plant is being carried out under strict inspection and standardization that the Chief accounting officer /accounting officer further stated.	The requirement of strength inspection equipment has been identified in the all regional offices of Sri Lanka Excise Department and warehouses and liquor manufacturers, distilleries under the supervision of head Office of Excise Department of Sri Lanka. For this purpose, even the procurement division of the department started the procurement activities in February 2020 to make new purchases but the procurement activities were delayed due to the present situation of the Covid-19 pandemic and financial issues. Especially at that time no these equipment available in the country and had to be imported from countries. A recognized agency had reported that the alternative equipment available in the market at that time were not met the requirements of the Excise Department. Thus, a team of officers of the Sri Lanka Excise Department participated in a training of the department of government analyst and standardized the equipment belonged to the department as those can be reused. Accordingly, the requirements of the Excise Department of Sri Lanka have been well managed.
<u>No inspection the Toddy samples from the Toddy tavern No.1 and No.2 in Ratnapura.</u> Even though it is required for the Provincial Assistant Excise Commissioner and the Excise Superintendents to have the samples of the Toddy in the bottles of Toddy for sale in that area tested by the Government Analyst at least three months, Toddy for sale at Taverns No.1 and 2 in Ratnapura has not been tested up to 2020 after October 2017. The Chief accounting officer /accounting officer said that It was accepted that there were some shortcomings regarding these toddy taverns and according to the circular presently issued by the Commissioner of Excise, relevant inspections of toddy samples are being conducted once in three months.	The Sri Lanka Excise Department has distinctly identified the weaknesses for regulating the quality of toddy and has studied the quantity of coconut trees and the number of tappers required for the supplying of toddy to be made according to the overall requirement. As also, a research has been started regarding the preparation of the standard of toddy and the first step for that research has been completed. However, the second step of the research has been commenced with the Sri Lanka Standards Institute and its first studies and tests have been completed. Activities for establishing the laboratory of the Sri Lanka Excise Department are currently being carried out.

However, the committee explained that the toddy sold before receiving the reports of analyst, substandard toddy may place in hands of the consumer, and pointed out that there are weaknesses in regulating the quality of toddy. This situation is identified by the chief accounting officer/ accounting officer , this situation can be avoided with the Central Excise Laboratory expected to be constructed and for the importance of the need to construct the said laboratory as soon as possible that it was pointed out.	
<u>The issuance of a temporary permit to import non-potable spirits.</u> A temporary permit had been issued to a company that did not possess a permit of the Excise Department for exporting and transporting goods to import non-potable spirits with a value of Rs. 5,168,570/=. The Chief accounting officer /accounting officer said that the temporary license was given to release the spirits from customs and a fine of Rs.500,000/- has been charged for the same.	Actions have been taken to charge the composition fees by submitting technical crime reports regarding the import of non-potable spirits having violated the conditions cited in the license and the Excise Notification 07/2018.

Special committee meeting to discuss the measures to be taken to increase the Public Revenue in the face of the current economic crisis
15th June 2022

Shortcomings identified by the committee mentioned in the report	Actions taken by the institution to rectify the shortcomings /current status
Revenue Administration Management Information System (RAMIS)	Data of the Excise Department that has been requested by the Inland Revenue Department is being forwarded online from the interface. At present, Actions are being taken by the excise department to obtain import and export information through ASYCUDA system of Sri Lanka Customs and granted required approvals online.
<u>Proposals of the Excise Department</u> • Loss of revenue due to the shortage of ethanol and fuel Accounting officer of the Excise Department said that The amount of 50-100 million rupees per day is lost to the government due to the shortage of ethanol and the following remedies were proposed for the same. - Allowing to import molasses and corn for 2 government agencies - Allowing to import of ethanol to maintain a buffer stock.	The shortage of ethanol which started in February and March of 2022, has now mostly disappeared. Accordingly, it was observed that the shortage of ethanol in the year 2022 has now reached at a good level. ❖ Import of molasses appears to be unnecessary at present. ❖ It seems to be that the obstacles to maize manufacturing have been removed to a certain extent. ❖ Supplying fertilizer has improved to a certain extent.

- Allowing to import of 15,000-20,000 tons of corn seeds - Providing of adequate fertilizers for corn and sugarcane crops - Supplying of raw materials for the manufacturing of liquor bottles	❖ Issues of importing and collecting raw materials for liquor bottles manufacturing are being discussed. However, I would like to report that there is a good position in the ethanol manufactories at the moment.
<u>Progress in interconnection of liquor shops</u> Accounting officer of the Excise Department said that the process will be completed in covenant time and efforts have been made to gather requirements and actions have been taken to identify risks.	Through the RASED project, progress is to be taken regarding the daily sales of all liquor outlets. This project is at the beginning of the initial stage
<u>Revenue foregone due to tax concessions granted for toddy licenses</u> The revenue of Rs. 400 million lost to the Excise Department due to the tax concession given for toddy licenses, It was disclosed that 93% of the revenue is earned by 6 companies and 7% of the revenue is earned by 15 companies. And also, from January 03, 2022, steps have been taken to prevent fraud by introducing stickers for liquor bottles that it was said by accounting officer of the Excise Department In addition, through mobile apps that the public will be able to know whether a tax payer has paid taxes that he further stated. Due to some technical problem in the Indian company implementing the sticker project that the completion of the mobile application project has been delayed and after the introduction of this project, the revenue has been increased triple by 17% and responded to the inquiry of the committee that the accounting officer of the Excise Department said. In response to the inquiry of the committee, accounting officer of the Excise Department said that facilities have been provided to inspect the process of import liquor license through this mobile application from 01 of July 2022. <u>Recommendations</u> - Stop payments to the Indian company in charge of the sticker project and take necessary actions as per the agreement. - Stop payments to the Indian company in charge of the sticker project and take necessary steps in terms of the agreement.	According to Excise Notification 3/2021 dated 07.01.2021, the excise tax of Rs. 25 per bulk liter has been increased up to Rs.50 under the E.N.03/2022 dated 29.04.2022. Compared to 2021, there is an increase in manufacturing and revenue in 2022. In the manufacturing of toddy bottles, as in the manufacturing of other liquor, foolproof stickers are affixed at the same time of manufacturing.
<u>Setting standards for toddy</u> The accounting officer of the Excise Department	Actions are being taken to prepare the standards for toddy together with the Industrial

said by responding to the inquiry of the committee that required measures have been taken to decide the standards for toddy with the amalgamation of Sri Lanka Standards Institute, Industrial Technology Agency and the department of government analyst.	Technology Authority ,the Sri Lanka Standards Institute and the department of government analyst.
<u>Prohibition of artificial toddy</u> The accounting officer of the Excise Department said that an regular program is required to ban artificial toddy and consumption of toddy that are harmful to the human body ,will be stopped. He further stated that the standards have been prepared for all types of liquor. <u>Recommendations</u> - Ensuring that the quality of the manufacture is not harmful to the human body - Taking necessary measures to discourage the manufacturing of artificial toddy and promote natural toddy.	As aforesaid, the steps have been taken to prepare standards for toddy and this problem can be solved by setting standards for toddy and expanding the detection of artificial toddy.

**A special committee meeting called to discuss the possibility of introducing a computer software system to streamline the licensing process of the Import and Export Control Department
16th June 2022**

Shortcomings identified by the committee mentioned in the report	Actions taken by the institution to rectify the shortcomings /current status
<u>Computer System of the Department of Import and Export Control</u> To improve the efficiency of issuance of license and improving the performance of the computer system of department to link the computer system of department and exchange information with 5 basically important institutions including the Telecommunication Regulatory Commission and the Excise Department, Sri Lanka Customs and Department of Motor Traffic, The Department of Import and Export Control agreed with the Sri Lanka Information and Communication Technology Agency (ICTA) to develop this computer system and outsourced the system through another agency and there are a lot of mistakes in using this system and the system has been kept away as it is not user friendly that it was stated by accounting officer, although about the problems/difficulties informed to the Sri Lanka Information and Communication Technology Agency that they arose after the system was handed over to the department, the necessary improvements have not been made yet that she further stated.	The Excise Department has not yet linked with the computer system of the Department of Import and Export Control. It has been identified that these facilities should be provided through the proposed Revenue Administration System of the Excise Department (RASED).

And also, she mentioned that currently a grant is to be received from the Estonian government for the establishment of the information system, and those recommendations have been requested from the Department of Foreign Resources. <u>Recommendations</u> - Mandatory an integrated information system to be implemented among relevant institutions to prevent fraud, corruption and irregularities in the import and export goods processing. - To call the Department of Import and Export Control, the institutions expected to be integrated through this system and the Sri Lanka Information and Communication Technology Agency to appear before the Committee on 16th June 2022. - To identify the problems/weaknesses that have been arisen in this system on that day and discuss the steps which can be taken to improve the system.	
<u>Software System of Excise Department</u> The accounting officer of the Excise Department said that the system will be prepared as all parties can link this as police stations, divisional secretariats. Liquor shops that are involved, and this will cover all areas as risk management, licensing process, supervision of manufactories, excise tax and tax administration, liquor distribution, supply, chain regulation, crime and legal management, facility of issuing reports. <u>Recommendations</u> - Currently, the excise license approval is submitted to the Department of Import and Export Control as a hard copy, but that approval should be submitted online.	After the establishment of the new computer system in the department, these developments will be carried out. The Proposed Revenue Administration System of Excise Department – RASSED to be prepared by the department and the following progress has been achieved up to now. 1. Draft of the Software Requirements Specifications – SRS has been prepared. 2. The SRS reports have been forwarded to certify by the officials of the department that it is planned to start the next procurement activities to get a service provider to develop the software for those activities and confirmation (signed off) at the same time. 3. Here, the needs of the department should be identified as far as possible so it is necessary to attend enough time for it and by doing so, Change Requests of constant system can be minimized.

I kindly submit the above information regarding the measures taken and observations regarding the reports submitted by the Committee on Public Accounts under Standing Order No. 119(4) in relation to the Department of Excise, for Parliamentary Series No. 182.

Sgd.

Commissioner General of Excise
Department of Excise

Name of the Department : Department of Import and Export Control

Parliamentary Series Number : 182

Submission of observations and steps taken with regard to the reports presented to the Parliament by the Committee on Public Accounts in terms of the Standing Order No.119 (4)

Department of Imports and Exports Control
08th June 2022

Shortcomings identified by the committee mentioned in the report	Actions taken by the institution to rectify the shortcomings /current status
<u>Granting licences for importations</u> The policy of granting licences for the importation of vehicles that have exceeded the recommended period, vehicles imported in deassembled form, and the spirits used for the production of alcoholic beverages, and so on. <u>Recommendations:</u> - Submission of a detailed report to the Committee by the CAO/AO, which includes the methodology applicable for issuing licences for the importation of liquor/spirits by the department, the methodology adopted in issuing licences, the categories of licences granted, the companies to which licences were granted, and the monthly import volume during the period of 2018-2020. - Formulation of a proper policy by the CAO/AO to prevent the misuse of the process of issuing liquor/spirits licences - Introduction by the CAO/AO of a follow up review/supervision in regard to the fact whether the spirit imported for the manufacture of medicine is used only for that purpose. - Formulation and submission by the CAO/AO of a proper policy to be adopted in issuing licences for the importation of vehicles and spare parts and spirits within a period of four months; submission of a report on it to the committee; and carrying out the task of preparing the methodology for granting the spirit import licences in coordination with the department of excise.	The detailed report on the License-issued categories during 2018 – 2020, The license-issued companies, and quantities Imported per month has been submitted to the Committee by the letter No. MFO6/4/COPA/Export.Dept and dated 05.09.2022. The approved policy by the Controller General in relation to the issuance of the license for vehicles and auto parts and the report containing the Licensing process and policy of liquor/spirits has been submitted to the Committee by the letter No. MFO6/4/COPA/Export.Dept and dated 05.09.2022.

<u>The computer system of the department of Import and export control</u> Enhancing the efficiency of the issuance of licences and improving the performance of the computer system of the department for exchanging information by connecting it with five key institutions, including Sri Lanka customs, the department of Motor Traffic, the Telecommunication regulatory Commission and the department of Excise. <u>Recommendations:</u> - Compulsory implementation of a consolidated information system among the relevant institutions in order to prevent fraud, corruption, and irregularities in the process of importation and exportation of goods. - To summon the department of Import and Export Control, the institutions that are expected to be combined by the system, and the information and communication technology agency before the committee on June 16, 2022 - On that day, to identify the issues or flaws that have occurred in the system and discuss the measures that can be taken to improve it.	Cabinet of Ministers has granted approval on 23.01.2023 for the proposed IT system offered as a grant from EXBS Programme operated under United State Embassy of Sri Lanka. Accordingly, system implementation process started in April 2023. As per the orders of the Committee on Public Accounts, the Information Technology Agency (ICTA) was called for the Committee on Public Accounts on 16th June 2022 and as per the order received there, a detailed report related to the computer system has been prepared, which was planned to be implemented for this department and it has been arranged to be submitted to the Committee on Public Accounts on 26.10.2022.
<u>Transferring the vehicles imported under the gift scheme to various parties afterwards</u> There were 589 vehicles imported in the years 2011 and 2012 under the gift scheme, which were transferred to various parties afterwards. Regarding the previously mentioned number of vehicles, there were 159 instances where the vehicle was registered in the name of someone else from the beginning. 34 instances where the vehicle was sold or transferred before the lapse of 5 years since the initial registrations. 115 vehicles that had been imported by 30.09.2012 but had not yet been registered. 27 vehicles where the condition for transferring the vehicle in the name of the licensee with registered ownership	The following conditions are included in the Import Control License issued under the Gift system. • The vehicle must be registered under the name, in which the license was issued. • This vehicle shall not be sold, transferred or otherwise disposed for a period of five (05) years from the date of registration in Sri Lanka. • The vehicle should be driven on the right side. • All applicable additional fees shall be paid by the licensee at the time of debiting the license. • The vehicle should be free from soil/mud and a certificate should be submitted to confirm that. • If it is an air-conditioned vehicle, not permitted for use with CFC gas. • Export inspection certificate issued by Japan Vehicle Assessment Institute / Bureau Veritas should be submitted at the

of the vehicle itself has been lifted. The number of vehicles that were correctly registered in the name of the licensee with precise conditions was 254. <u>Non –availability of coordination among the institutions that were involved in the importation of vehicles under the gift scheme</u> Though there should be proper coordination among the department of Import and Export Control that issues licences for the importation of vehicles under the gift scheme, the Department of Customs that imports the aforesaid vehicles, and the Department of Motor Traffic that registers the aforesaid vehicles, such coordination is not available. <u>Recommendations:</u> - In this manner, formulating a system by the CAO?AO to monitor/make a follow-up review of the process that follows the issue of licences for the importation of vehicles under the gift scheme. - Developing s system and submitting it to the Committee within one month by the CAO?AO in coordination with the relevant institutions in order to collect the due amount of tax if there has occurred any irregularity following the importation of the aforementioned vehicles, or to take any other appropriate action.	time of debit of the license. The relevant conditions shall be mentioned in the certificate of registration of such motor vehicle and a certificate of registration shall be issued by mentioning such conditions. Thus, since the certificate of registration, in which a vehicle imported under the gift system is subject to the relevant conditions, it is not possible to register it again in the name of another party before a period of 05 years. When the relevant vehicle is transferred to another party after more than 05 years from the first registration, the Commissioner General of Motor Traffic is informed that there is no objection in this department regarding the transfer of the vehicle subject to charging the customs duty. Accordingly, after confirming the payment of the relevant customs duty, the Commissioner General of Motor Traffic will transfer the relevant vehicle to another party. Within the available Information Technological facilities, by now it was connected with the Sri Lanka Customs through ASYCUDA online. Also, since Sri Lanka Customs has been connected with the Department of Motor Traffic online, a dual inspection is being held. Further, these institutions will be connected through the proposal e-licensing system, which is about to establish in future.
<u>Not publicizing in the gazette the vehicle importers who import vehicles in contravention of the specified standards.</u> In accordance with section 11(f) the Import and Export Control Act No. 1 of 1969, amended by Act No. 28 of 1978, not publicizing in the Gazette the names of the importers who make importations in contravention of the specified standards. <u>Recommendations:</u> - Taking action by the CAO/AO to cancel the registration of the importers who make importations violating standards because simply publicizing their names	According, of the Attorney General's Department letter No. A/207/2022 and dated 03.01.2023 the Controller General of Imports and Exports has been empowered by the Import and Export (Control) Act No. 1 of 1969, it has not given legal powers to cancel the business/company registration of such importers.

in the gazette instead of that action is not sufficient. - Taking action within 3 months by the CAO/AO to have the legal provisions passed to cancel the registration of the importers who make importations violating the standards and submitting a report to the Committee.	
<u>Deprivation of customs duty of 114.6 million rupees as a result of importing 33 motor cars under incorrect combined classification numbers</u> Deprivation of 114.6 million rupees in customs duties as a result of importing 33 used motor cars under incorrect combined classification numbers in 2017 without adhering to the instructions of the Minister and the State Minister of the Ministry of Development Strategies and International Trade as well as the provisions set out in the Gazette No.1933/13 dated 21st September 2015 The Department of Import and Export Control has issued licences to import 33 vehicles of the Mazda RX 8 model under customs combined classification numbers with a 30% duty. However, due to the change in the engines of the aforesaid vehicles, the Customs has released the aforesaid vehicles under customs combined classification numbers for which a duty of 15% is charged. In this manner, as a result of the importation of a vehicle with an engine that was different from the one declared, the Customs charged only an amount of 1.5 lakhs per vehicle rather than 35 lakhs. <u>Recommendations:</u> - Taking action by the Department of Import and Export Control to investigate whether the due vehicle has been imported in accordance with the import licence, as the Committee observed that the Customs charges duties for the vehicle which is before them - Inquiring about the progress of the investigation conducted by the Department of Criminal Investigation into this informing them that the Public Accounts Committee has inquired about	Since, this department is giving approval for clearance in relation to all the licenses issued by the department, by connecting to the Customs Department through the ASYCUDA operating system, the relevant debit must be done when an import takes place in relation to all the Import Licenses. It has been observed that all the licenses issued through that are referred to debiting activities. Accordingly, the vehicle imported on a license can be checked whether it is the same vehicle. By my letter No. IECD/02/07/2021 and dated 10.06.2022, it is inquired about the current progress of the investigation, and in the reminder letter No. IECD/02/07/2021 and dated 15.08.2022, sent to the Director, Criminal Investigation Department, it has been further requested to expedite the investigation process.

it as more than a year has passed since a complaint was made to them in this regard and submitting a report by the CAO/AO once the aforesaid investigation is completed.	
<u>Importation of expired medicines.</u> • Importation of expired medicines worth 964,897 rupees that had even passed the validity period specified in the registration certificate issued for the importation of medicine <u>Releasing the medicine of which the shelf life is less than 75% having charged a fee.</u> Although 75% of the medicine's shelf life must be left for the incoming period when importing medicine., medicines with a shelf life of less than 75% have been released with a fee. <u>Recommendations:</u> - Submitting to the Committee within one month a report (detailing the quantities and percentages) of the medicines with a shelf life of less than 75% imported during the period 2018-2021.	The report on imported medicines with less than 75% shelf life during the year 2021 was submitted to the committee by the letter No. MFO6/4/COPA/Export and dated 05.09.2022. The report for the year 2020 has also been prepared and actions are being taken to submit the report to the committee. Reports related to the years 2018 and 2019 are being prepared but finding the archive documents and achieving the task among the day today heavy duties is creating some difficulties. However, those reports will be submitted promptly.
<u>Importing containers containing solid waste without a license</u> A licence issued by the Department of Import and Export Control should be obtained when importing the goods specified by the Gazette Extraordinary No.2044/40 dated November 9th, 2017 that concerns the regulations made by the Minister under Section 26 of the Import and Export Control Act No. 1 of 1969 to be read with subsection 3 of Section 4 and Section 14 of the said Act. However, a company registered with the Board of Investment of Sri Lanka had taken action without obtaining licences in relation to 102 containers that contained solid waste weighing 2,131,332.5 kilograms that had been imported in the years 2017 and 2018, of which the cost, insurance fee, and freight fee were 19,760,224 rupees. Similarly, at this point, it was disclosed that hospital waste such as beds and mattresses had	Advice on implementation of Hub Operation Regulations was requested from Sri Lanka Customs and Sri Lanka Board of Investment by the Letter No.TIP/TP/21/03-Vol.II dated 07.02.2023.

been imported in this manner. <u>Recommendations:</u> - Developing a system to prevent the illegal importation of goods for which an import license is required.	
<u>The fact that a consignment of fertilizer had been imported without a license and that the aforesaid consignment of fertilizer had been released without charging an additional fee</u> The government or private fertilizer companies shall obtain licences for the importation of fertilizer, and if fertilizer has been imported without such a license, the Department of Import and Export Control shall issue licences for such fertilizer, after charging an additional 5% fee. The fact tha, as is previously mentioned, a government – owned fertilizer company imported a consignment of fertilizer without obtaining a license in October 2021, and the Customs released the aforementioned consignment of fertilizer without charging an additional 5% fee, depriving the government of an income of 86,907,433 rupees that should have been collected as additional fees for the importation of fertilizer without a license. <u>Recommendations:</u> - The Committee, however, emphasized that such incidents should not occur in the future and requested that the CAO/AO notify the fertilizer company that such acts should not occur in the future and that this incident shall not serve as a precedent, having taken into account the fact that this matter was subjected to an audit query in the Public Accounts Committee.	The letter prepared as per the orders of the Committee was arranged to be forwarded on 20.06.2022, to the government own Fertilizer Company.
<u>Not levying taxes as per Tax Act on the additional fee charged for licenses, and not levying VAT on tax-free items</u> • The fact that the government has been deprived of a sum of 43,838,47 rupees by failing to collect taxes under Value Added Tax Act No. 14 of 2002 for the additional fee of 547,980,916 rupees charged by the Department of Import and Export Control for the licences issued by it during the year under	A copy of the letter issued by the Department of Inland Revenue No. ACT/17/9 and dated 30.12.2021 stating that license fees and additional fees charged under the statutory law are exempt from value-added tax was submitted to the Committee by the letter No. MFO6/4/COPA/Export.Dept and dated 05.09.2022 with a copy to Auditor Generals Department.

review The government has also been deprived of its due income as a result of the failure to collect the value added tax on the income received from the licences issued for the items designated as tax free under Sri Lanka Customs National Imports Tariff Guide. <u>Recommendations:</u> Submitting to the Committee by the CAO/AO within 2 weeks a copy of the letter issued by the Department of Inland Revenue stating that licence fees and the additional fees charged under statutory law are not subject to the value-added tax.	
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A special committee meeting called to discuss the possibility of introducing a computer software system to streamline the licensing process of the Import and Export Control Department
16th June 2022

Shortcomings identified by the committee mentioned in the report	Actions taken by the institution to rectify the shortcomings /current status
<u>The Software Application System of the Department of Imports and Exports Control</u> The Software Application System of the Department of Imports and Exports Control which was commenced in the year 2015 and abandoned after the first phase. - Although a tendering process had already been initiated by the Department of Imports and Exports Control in 2015 to install a software application system, calling for tenders via ICTA and issuing them to an outsource company to execute a separate software application system, abandoning the tendering process which had already been initiated. - Inability to commence the second phase of this project due to several issues occurred in the implementation of the first phase although it had been completed. - Incurring of Rs.8.1 million for completing the work in the first phase. - As a result of having only 12 registered importers out of 60 at the first phase, its progress has been only 20%. <u>Recommendations</u>	The detailed report of the software system which started in the year 2015 has been submitted to the committee by the latter No. MFO6/4/COPA/Export.Dept and dated 19.10.2022.

Submission of a detailed report by the C.A.O./A.O. including the funding source of the project, amount of funds, reasons for abandoning it, malfunctions occurred and stating whether this information system has been formally accepted by the department.	
<u>The Information System expected to be installed under the Estonian Grant</u> • Including 15 million rupees on this and possibility in encountering compatibility issues after installing this system. <u>Recommendations</u> Expenditure on the installation of new software system in order to regularize the services of the Imports and Exports Department.	• Cabinet of ministers has granted approval on 23.01.2023 to the proposed IT system as a grant from EXBS Programme operated under United State Embassy of Sri Lanka. Accordingly, system implementation process started in April 2023. • Information system which received as a donation from Estonia is a totally grant and there is no plan to spend the GOSL funds for it.

I kindly submit the above information regarding the measures taken and observations regarding the reports submitted by the Committee on Public Accounts under Standing Order No. 119(4) in relation to the Department of Import and Export Control, for Parliamentary Series No. 182.

Sgd.
Controller General
Department of Import and Export Control

Name of the Department : **Sri Lanka Customs**

Parliamentary Series Number : **182**

Submission of observations and steps taken with regard to the reports presented to the Parliament by the Committee on Public Accounts in terms of the Standing Order No.119 (4)

Special committee meeting to discuss the measures to be taken to increase the Public Revenue in the face of the current economic crisis
15th June 2022

Shortcomings identified by the committee mentioned in the report	Actions taken by the institution to rectify the shortcomings /current status
<u>Revenue Administration Management Information System (RAMIS)</u> The A.O of the Department of Inland Revenue stated that the steps had been taken to interface the Sri Lanka Customs, Department of Registrar of Companies, Excise Department, People's Bank, Bank of Ceylon, and the Lanka Clear (Pvt) Ltd already and the interfacing of other institutions with the system had been delayed due to the inconsistencies among databases such as the lack of interoperability framework and a unique number for the identification of the taxpayer, non-availability of a database in some institutions and also there should be an equal technology for maintaining databases. <u>Recommendations: -</u> - Complete the interfacing process of the Inland Revenue Department, with the Excise Department and the Sri Lanka Customs that are earning Rs. 2000 billion annually and contributing to more than 90% of the total government revenue. - To discuss the matter further at the Committee meeting scheduled on the following day (16.06.2022) in which the officials of the Information and Communication Technology Agency (ICTA) would be present	The answer for the Revenue Administration Management Information System (RAMIS) in page 107 of the Parliamentary Series Number 182 is given as follows. Integration of Sri Lanka Customs with the Department of Inland Revenue (IRD). Sharing import and export data of Sri Lanka Customs with IRD. • ASYCUDA computer system of Sri Lanka Customs has been integrated with the RAMIS of the Department of Inland Revenue and this data is automatically transferred to the RAMIS. Sri Lanka Customs has requested the following data from the Department of Inland Revenue, however, due to system development in RAMIS still pending, • VAT registration data for verifying the registration of traders in Sri Lanka Customs. • VAT loan voucher data for reorganizing import Cusdecs.
<u>The Proposals made by the Sri Lanka Customs</u> Factors affecting generation of revenue • Tax policy changes • Granting of waivers, exemptions and concessions • Application of restrictions/ regulatory measures • Bi-lateral and multi-lateral agreements • Seasonal effects (festivals, trends etc.)	Sri Lanka has signed the following 04 bilateral and multilateral agreements by now. ISFTA - Indo-Sri Lanka Free Trade Agreement PSFTA - Pakistan-Sri Lanka Free Trade Agreement APTA - Asia Pacific Trading Agreement SAPTA - SAAC Preferential Trade Agreement Even though Sri Lanka gets tax concession for importation through these agreements, due to a

• Global economic and political situations • Sudden disasters • Revenue Leakage The revenue leakages are caused by undervaluation, non-declaration of items, smuggling and classification Harmonized System Codes (H/S codes). • To prevent the undervaluation a unit has been established to develop a software to obtain the correct valuation automatically when the cusdec is submitted, in collaboration with the Universities of Colombo and Moratuwa • To prevent the smuggling a rapid scanner is being utilized. • To prevent the wrong classification of H/S Codes a set of proposals had been forwarded to the Secretary to the Treasury to take further action. <u>Recommendations:</u> - To take necessary action by C.A.O for implementing the proposals submitted by Sri Lanka Customs.	huge increase in exports, export revenue increases and foreign exchange inflows to the country. It can be stated that, due to festivals that fall in April and December, imports comparatively increase during these seasons. Even though several discussions were held to develop software for obtaining correct valuation at the submission of Cusdecs in collaboration with the Universities of Colombo and Moratuwa, financial provisions could not be provided. However, Sri Lanka Customs is in the process of developing software and its prototype is to be tested at the database (server) of the Information Communication Technology Directorate of Sri Lanka Customs. Sri Lanka Customs has mainly stated several matters and factors that affect revenue generation and variance in these factors results in the fluctuation of revenue. Actions have been taken to establish a special unit called National Import Valuation Database Unit in Sri Lanka Customs to implement optimal procedure for determining the value of goods. Further, a scanning machine called Rapi-Scan has been installed in the port premises under the supervision of Sri Lanka Customs. All the containers that are selected by the Risk Management Directorate through an automated process are scanned by this Rapi-Scan machine. Aiming at prevent misuse of goods classification, actions were taken to conduct special training workshops for the Customs Officers to enhance their knowledge on commodity classification. In addition, Commodity Classification Directorate and Nomenclature and Classification Committee that is implemented beyond such directorate is operated in Sri Lanka Customs to resolve the issues relevant to commodity classification
<u>Proposals to enhance the collection of revenue and increase the inflow of remittance</u> • Minimizing the tax evasion by introducing similar tariff rates to closely related products. e.g corn starch and corn flour • Taxation of Cross-Border E- Commerce • Introducing new National Sub Divisions (NSDs) to products which cannot be classified appropriately due to unavailability of proper NSDs • Introducing / Increasing taxes for specifically identified items e.g consider applying Value Added Tax (VAT) for fabrics under Chapters	Customs duties are levied according to HS Codes and relevant tax rates. Even though closely related products that are similar in appearance have different tax rates, these are sometimes difficult to identify separately. It is observed that, due to this technical problem, some importers falsely classify the relevant goods under the HS code that has lower tax rates paying comparatively low tax rates and avoiding due tax payments. Accordingly, it has been observed as appropriate to introduce a similar tax rate for closely related products that are similar in physical appearance and classified under

50-55, 58 and 60. These goods are generally overvalued since the existing tariff structure consist of a Cess applicable on the weight • Developing a mechanism to monitor the inflow of export remittance (Remittance Management System) together with the Central Bank of Sri Lanka in which the details of the traders are obtained. • Expediting the implementation of Integrated Automated System to reduce the human intervention • Strengthening the operations of Post Clearance Audits by introducing the Automated System and a Risk Management Criteria in which the imports have been categorized into red, amber, green and full exemptions for trade facilitation • Strengthening the Customs Marine Division to combat smuggling.	different HS Codes. Sri Lanka Customs introduce National Sub Divisions when only a request is made by the Department of Trade and Investment Policy. When Sri Lanka Customs recognize the requirement for a National Sub Division (NSD) it is first informed to TIP to seek their approval. At present lack of "Supplementary Explanatory Notes" is the issue relevant to the introduction of National Sub Divisions (NSD). However, this issue is being addressed by a special committee appointed by the department. The Central Bank of Sri Lanka has developed a system to monitor the internal remittances. Sri Lanka Customs send export declaration data to the Central Bank together with anticipated remittance data. Subsequently, all commercial banks should provide their remittance data to the system in CBSL for monitoring. An integrated automated system is already in operation among the other relevant government institutions to minimize human intervention. Accordingly, import and export Cusdecs data are automatically transmitted to the RAMIS of the Department of Inland Revenue and Cusdec data of motor vehicles that are released by the Sri Lanka Customs are automatically transmitted to the Department of motor traffic. Also, approval from other government institutions required for clearing goods from the SLC is obtained online through the SYCUDA. Such 15 institutions are already connected to the ASYCUDA now. Bank of Ceylon has provided facilities for online payment of taxes and other charges on Cusdecs through LankaPay. Further, facilitated to transfer of remittances out of the country for imports to the ASYCUDA by the commercial banks and allowed to submit Cusdecs only for the remittances such transmitted. Export Cusdecs are transferred to the Central Bank of Sri Lanka to examine whether the remittances from exports are properly collected to the country. In strengthening the post-clearance audit process, the intervention of the Risk Management Directorate and guidelines are very important. At present imports are identified under several categories aiming at facilitating the importations and targeting for auditing. This identification process is automated without human intervention and in this process, low-
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	risk or no-risk imports are identified under Green Channel. This cargo was released without inspection. Medium-risk imports are identified under the amber channel and these are certain percentages of this cargo are inspected to a certain extent before release. High-risk cargo identified by a computer system is fully examined at the inspection yards. This potential methodology supports selecting import or import companies for post-clearance audit. Accordingly, the Post Clearance Audit Directorate can do correct and successful audits involving fewer staff and an efficient workforce by targeting post-clearance audits based on the nature of the risk. At present (Due to the prevailing economic situation) there is a difficulty in providing boats and other communication equipment required to strengthen the Customs Marine Unit. At the recent discussion with the officer of the Australian Border Control Force headed by the Director General of Customs matters related to required equipment and officer training for rebuilding the Customs Marine Division had been presented and it seems to have a good response in this regard.
<u>Changing of H/S Codes</u> The A.O stated that the proper action had already been taken by the Department to prevent such malpractices.	<u>No (13) - Changing of H/S Codes</u> The department has already taken actions to prevent such malpractices as follows: √ Directions were given to submit all the import Cusdecs compulsorily through the online system. √ Directions were given to upload all the import documents and reports that are relevant to these Cusdecs to the same Cusdec. √ All the relevant officers were instructed not to process any import Cusdec that does not follow this procedure. √ The ASYCUDA computer system has been updated to automatically decide all the directions relevant to deciding examination yard, printing gate passes, cargo examination orders, and cargo releasing orders by the computer. √ Instructions were given to request the importer to upload additional reports if the HS

	code could not be decided by the documents uploaded with the relevant Cusdec and if a Customs Officer who examines the document has any doubt about HS codes even after uploading such documents, he is instructed to upload all the matters that cause his doubt together with a request to the officers in the inspection yards to decide the correct HS code comparing these documents with import cargo. √ Instructions were given to inform the importer if the HS codes in the Cusdec is not matching with import cargo compared to the provided documents by the officers in the inspection yards and if the importer is not agree with the decision, forward all the relevant documents to the Commodity Classification Directorate of SLC together with cargo samples. √ The officers in the Declaration Directorate have been given the opportunity to enhance their knowledge through regular seminars and workshops. √ The officers in the Commodity Classification Directorate have been allowed to update their knowledge by participating in seminars conducted by the World Customs Organization.
<u>The reduction of income earned by the Petroleum Production levy by 72% during the period from 2017 to 2021.</u> The C.A.O/ A.O stated that the reduction of the Petroleum Production Levy was resulted due to the tax waiver introduced to prevent the increasing of fuel prices.	From the year 2022 fuel tax rates were increased in higher rates. Even though there is a reduction in fuel importation, increase in tax rates. Currently imposed a Petroleum Production Levy for petrol up to Rs 77/- and diesel up to Rs. 63/-. Also imposed customs duty and Ports and Airport Development Levy (PAL). Even though the tax rates show a huge increase compared to the year 2021, the revenue doesn't show much increase due to a decrease in import volume. In the year 2022 reported a 5% increase in revenue compared to 2021.

I kindly submit the above information regarding the measures taken and observations regarding the reports submitted by the Committee on Public Accounts under Standing Order No. 119(4) in relation to the Sri Lanka Customs, for Parliamentary Series No. 182.

Sgd.
Director General of Customs
Sri Lanka Customs

Name of the Department : Department of Trade and Investment Policy

Parliamentary Series Number : 182

Submission of observations and steps taken with regard to the reports presented to the Parliament by the Committee on Public Accounts in terms of the Standing Order No.119 (4)

**Special committee meeting to discuss the measures to be taken to increase the Public Revenue in the face of the current economic crisis
15th June 2022**

Shortcomings identified by the committee mentioned in the report	Actions taken by the institution to rectify the shortcomings /current status
Observations, Recommendations/ Directions No. 12 – “Proposals to enhance the collection of revenue and inflow of remittance”	When facts relating to this matter were submitted to the Committee on Public Accounts on June 15, 2022, neither this Department had been represented at the said meeting nor these proposals had also been submitted by the Department. However, the observations of this Department with respect to following four (4) proposals are given below. i. Minimizing the tax evasion by introducing similar tariff rates to closely related products, e.g. corn starch and corn flour. Tariff rates are applicable on the HS Codes (Harmonized Commodity Description and Coding System), which has been used to classify commodities in a logical sequence in which classification is made on the basis of value addition to a particular product/nature (key character) of a product etc. The commodities, being raw materials, intermediate or finished goods etc. are thus categorized separately and goods of similar nature (key character) cannot be distinguished separately. However, goods closely resembling each other and which cannot be distinguished separately at the point of Customs clearance could be charged with same tariff rate. In the case of corn flour and corn starch, these are two different products by purpose and may attract two different duties rates. ii. Taxation on Commercial Trading between Countries The proposal “Taxation on Commercial Trading between Countries” has erroneously been mentioned in the Report as “Taxation of Cross- Border E-Commerce” in its English translation. Accordingly, it was

	observed as two separate facts and observations are submitted as follows. • Taxation on Commercial Trading between Countries In the process of trading between countries, the import tax regime is being implemented pertaining to the needs of the country concerned in a manner where goods being classified in terms of their usage i.e. consumption goods or capital goods on the basis of whether such goods are raw material, intermediate goods or finished products. For example, a higher tariff rates are imposed for imported products with a view to safeguard the domestic industries which produce similar products. Similarly, there are instances where tax concessions are granted when raw materials and non-finished products are being imported. Further, tariff rates are subject to revisions on the request of relevant stakeholders and public sector institutions as appropriately. Moreover, imposing tariff on trade between countries is not only intended for mere revenue collection, but also for various other reasons depending on the requirements of the country. • Taxation of Cross-Border E-Commerce E- Commerce, being a global phenomenon, is an emerging trade transaction mode in Sri Lanka. It has been identified even before 2019 and there was a concern to impose a tax on such transactions. However, taking into consideration the IT development and employment generation during that period, imposing tax on E- Commerce had not been effective as a policy directive. However, there is a policy consideration to impose tax on international E- Commerce operators like Alibaba, Uber, Ebay, Amazon, Daraz and other stakeholder involving in the E-Commerce business in the near future. iii. Introducing new National Sub Divisions (NSDs) to products, which cannot be classified appropriately due to unavailability of proper NSDs.
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	New national sub divisions are being created with the concurrence of the Sri Lanka Customs on the request of relevant stakeholders to classify new goods. A total of 56 NSDs had been created in 2022 and 12 NSDs has been created in 2023. Further, descriptions were also changed with respect to 14 HS codes. Those revisions have been made effective by way of the Revenue Protection Order No. 07/2022 published in the Gazette Extraordinary No. 2312/75 of 01.01.2023. iv. Introducing/ increasing taxes for specifically identified items. With effective from 31.05.2022, duties levied on certain selected imported commodities have been increased by way of increasing the Customs Import Duty or imposing a Surcharge as recommended by the Central Bank of Sri Lanka in order to preserve the foreign exchange reserves of the country. Pursuant to the Budget Proposals - 2023 presented on 14.11.2022, action was taken for avoidance of under-invoicing and under-valuation of duties by adjusting the Unit Rates of Customs Import Duty and CESS Levy absorbing the prevalent exchange rates. Importation of goods has further been restricted by restricting the use of Open Account Payment Terms by way of Regulations issued under the Imports and Exports (Control) Act, No. 01 of 1969.
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I kindly submit the above information regarding the measures taken and observations regarding the reports submitted by the Committee on Public Accounts under Standing Order No. 119(4) in relation to the Department of Trade and Investment Policy, for Parliamentary Series No. 182.

Sgd.
Director General
Trade and Investment Policy

Name of the Department : Department of External Resources

Parliamentary Series Number : 182

Submission of observations and steps taken with regard to the reports presented to the Parliament by the Committee on Public Accounts in terms of the Standing Order No.119 (4)

Department of External Resources
09th June 2022

Shortcomings identified by the committee mentioned in the report	Actions taken by the institution to rectify the shortcomings /current status
<u>Commitment Fees for Foreign projects</u> - Rs.4 billion and 1.8 million had been paid as Commitment fees for the foreign projects in the years 2020 and 2021 respectively and the Committee was of the view that this situation can be avoided by adopting a proper project management system. <u>Huge loss faced by the government due to the suspension of projects</u> - The government incurs a huge loss due to the suspension of certain projects without any rational basis. The Department of External Resources stated that the project approval process is not undertaken by them and that they only handle the matters related to the mechanism for procuring financial allocations for the projects. Similarly, the AO explained that the disbursement of funds for the projects is gradually done for the ongoing projects carried out for several years, that a cash flow chart is prepared in relation to the disbursement of these funds that an interest has to be paid for the funds spent and that the commitment fee relevant to the particular year has to be paid for the undisbursed money. Accordingly, commitment fees have to be paid for the entire relevant period on behalf of the contribution made by the donor states that sponsor the projects and here it was also revealed that the project can not be expedited against the stipulated time frame. However, the AO stated that a circular bearing number MOFPE&PD/ERD/2020/1 and dated 12.2.2020 by the name of “ Ensuring Project Readiness for Effective Disbursement of Foreign/ Local Financing and Strengthening the Project Management” had been issued by the Ministry of	According to several loan agreements we will have to pay commitment fees through out the timeframe for the contribution made by the sponsoring countries of the projects and the project cannot be accelerated apart from the agreed timeframe. However, in order to avoid project delays due to various reasons, the Ministry of Finance has issued a circular No. MOFPE&PD/ERD/2020/1 dated 12.02.2020 on "Ensuring Project Readiness for Effective Disbursement of Foreign/Local Financing and Strengthening the Project Management". Accordingly, the line ministry needs to forecast the things that cause to delay the project before submitting the Cabinet Memorandum for a project, so that the accumulation of commitment fees due to the delay of the project can be minimized.

Finance with a view to avoiding the project delays resulted by various reasons. Accordingly, he also stated that the probable project delays have to be predicted prior to the submission of the cabinet paper for a project by the line ministry and that the accumulation of commitment fees due to the project delays can be minimized through that.	
<u>Suspended Light Rail Transit Project</u> A loss of Rs.10 billion including a fine of Rs. 5 billion extra had been borne by the Sri Lankan Government due to the Light Rail Transit Project which was suspended after spending Rs. 5 billion. The CAO/AO stated that under the directives of HE the President, the line Ministry had been instructed by the Presidential Secretariat to suspend this Light Rail Transit project with a total value of 2.2 billion USD including the assistance of 1.85 billion USD and a share of expenditure borne by the Sri Lankan government, which was planned to be implemented for a period of 40 years under the assistance of the Japanese government. Accordingly, the AO revealed that their department was instructed by the Cabinet to make arrangements to terminate the particular loan agreement after having conducted a series of Cabinet discussions regarding the suspension of the project. The AO who explained about the background which led to the suspension of the Light Rail Transit project, stated that a medium term loan management strategic plan had been prepared by the Department of External Resources in collaboration with the Central Bank and the World Bank as it became evident that the indebt burden of the country continued to aggravate during the period 2017/2018. As such, the AO who stated that a cabinet paper named "Foreign Resource Mobilization 2020-2025" was issued on 2020.05.13, further mentioned that the current economic crisis had been predicted there. The AO stated that the Cabinet might have considered it difficult to implement the above project based on the said factors as well. However, the Committee pointed out that the huge loss incurred on the government and the damage to the diplomatic relationships would have been averted, had this kind of probable losses been predicted prior to entering into agreements for the above project.	As it became clear that the debt burden of the country would continue to worsen by the year 2017/2018, a medium-term debt management strategic plan was prepared in collaboration with the Department of External Resources, the Central Bank of Sri Lanka and the World Bank. Although, it had been predicted the coming economic crisis in near future, by considering the fact that the Light Rail Transit project was one of the government's priorities in accordance with the existing economic policy, the then government gave instructions to implement it. A Cabinet paper named "Foreign Resource Mobilization 2020-2025" has been issued on 13.05.2020, where the current economic crisis has been predicted. However, as stated in the letter dated 21.09.2020 of the then Secretary to the president, as per the order of the then H.E. the President with the observation that this project is very costly and not the appropriate cost-effective transport solution for the urban Colombo transport infrastructure, the line ministry was ordered to terminate the project, and accordingly, the project has been terminated as per the Cabinet Decision No: අම/20/1450/312/002 dated 06.10.2020. Despite the situation at that time, the Cabinet Memorandum No: 23/0389/618/013 - I dated 20.02.2023 submitted by the Minister of Urban Development and Housing regarding the re-implementation of this project, was directed to the National Operations Room chaired by the Prime Minister's Secretary to take strategic decisions regarding the project and to prompt response with due consideration of the observations made by the Minister of Finance, Economic Stabilization and National Policies. Accordingly, after discussing with the panel of experts nominated by the Cabinet decision, the report prepared by the National Operations Room was Presented to the Cabinet of Ministers by the Minister of Finance, Economic Stabilization and National Policies under the Cabinet Paper No. 23/0953/604/098 dated 22.05.2023.

	Accordingly, the proposals I to V made by the National operation room to carry out the project in a manner that does not have an adverse effect on the public finance management and does not have an effect on the diplomatic relations with the Japanese Government, with the observation that the proposed Light rail Transit system is an important project to reduce traffic congestion and increase economic activity in the suburbs of Colombo, and Considering the existing financial and economic background as well as an agreement made with the International Monetary Fund, have been approved by the Cabinet of Ministers on 22.05.2023. (Cabinet paper and the decision are attached.) Accordingly, further actions are to be taken after discussions with the Government of Japan and the Japan International Cooperation Agency (JICA) with regard to the proposals No. I and II.
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I kindly submit the above information regarding the measures taken and observations regarding the reports submitted by the Committee on Public Accounts under Standing Order No. 119(4) in relation to the Department of External Resources, for Parliamentary Series No. 182.

Sgd.
Director General
Department of External Resources

Name of the Department : Department of Project Management and Monitoring

Parliamentary Series Number : 182

Submission of observations and steps taken with regard to the reports presented to the Parliament by the Committee on Public Accounts in terms of the Standing Order No.119 (4)

Department of External Resources
09th June 2022

Shortcomings identified by the committee mentioned in the report	Actions taken by the institution to rectify the shortcomings /current status
<u>The importance of a National Evaluation Policy</u> The Committee which explained about the importance of a policy of this nature in properly managing the foreign debt, and directed the CAO to pay attention towards the formulation of a National Evaluation Policy.	National Evaluation Policy (NEP) of Sri Lanka prepared by the Department of Project Management and Monitoring has been approved by the Cabinet of Ministers and has already been launched by the former Prime Minister Ranil Wickremesinghe at 'EvalColombo 2018'. This policy has been tabled in the Parliament as per the directive of Cabinet of Ministers. Delays in the implementation of projects and programs and inefficiencies affect the results delivery of public investments at optimum level. Therefore, the Implementation Framework of the National Evaluation Policy including the strategies, guidelines, standards and ethics has already been prepared after following a wider consultation process for effective implementation. Under this process, a series of trainings and consultations are also planned to be conducted from April this year to institutionalize the evaluation of development programs at all levels of the government's administrative structure.

I kindly submit the above information regarding the measures taken and observations regarding the reports submitted by the Committee on Public Accounts under Standing Order No. 119(4) in relation to the Department of Project Management and Monitoring, for Parliamentary Series No. 182.

Sgd.
Director General
Department of Project Management and Monitoring

Name of the Department : Department of National Planning

Parliamentary Series Number : 182

Submission of observations and steps taken with regard to the reports presented to the Parliament by the Committee on Public Accounts in terms of the Standing Order No.119 (4)

Department of External Resources
09th June 2022

Shortcomings identified by the committee mentioned in the report	Actions taken by the institution to rectify the shortcomings /current status
<u>Projects implemented after making loan agreements</u> Inquiring whether the projects which are implemented by our country after entering into loan agreements are consistent with the National Physical Plan and whether they are really essential for the country. Here, the AO stated that not having a specifically identified development plan for an approximate period of 10 years is a big shortcoming. He further stated that solutions to the crisis that we encounter today can be sought by preparing a specific development plan for our country for a period of 10 years in collaboration with institutions like the Asian Development Bank, and the World Bank and by implementing it after having adopted in Parliament. The CAO, expressing views in this regard stated that not only the 10 year development plan but the country is also in need of a macro economic policy which does not change based on political ideologies when governments change. <u>Recommendations:</u> - The CAO/AO was directed by the committee to expeditiously report over this matter after having initiated plans towards preparing a specifically identified national development programme for a 10 year period with the leadership of the department.	Then Prime Minister cum current President has appointed a National Policy Advisory Committee - NPAC in June 20, 2022 comprising the Director General of the Department of National Planning, Executive Director of the Institute of Policy Studies and Mr. Daniel Alphonsus (Economic Advisor) to formulate a Ten Year National Development Policy Framework-NDPF. After several consecutive meetings held among the three parties, an Inception Report of the National Development Policy Framework was prepared and submitted for the instructions of H.E the President on 21.10.2022 via the Secretary to the Ministry of Finance, Economic Stabilization and National Policies. The Inception Report is an overarching outline of the NDPF development process, areas that will be covered by the NDPF and a sample template worked out for the Education sector. This Report has been submitted to the Secretary to the President on 21.10.2022. (A copy of the Inception Report is attached herewith in Annex 1). Pursuant to the directives given to the Secretary to the Ministry of Finance, Economic Stabilization and National Policies by the Secretary to the President and as per the instructions received by the Director General of the Department of National Planning on 24.11.2022 from the Secretary to the Treasury, the Inception Report was submitted for the consideration of the Chairperson of the Committee on Economic Stabilization, Recovery and Promotion of Growth (CESRPG), Dr. R.H.S. Samarasinghe on 28.11.2022 which was appointed by H.E the President, consistent with senior officials of the government and experts of the private sector since the said committee is also in the process of preparing a plan with a road map for economic stabilization, recovery and promotion of economic growth for a ten-year horizon. As per the instructions to be received from CESRPG, the ten

	year Development Plan is expected to be finalized. Further, the National Council sub-committee on identifying short and medium-term programs for economic stabilization chaired by the Parliamentarian Hon. Mr. Patali Champika Ranawaka is also preparing reports by identifying short and medium-term policies and programs on economic stabilization. Referred to all these factors, this Department will take necessary actions to prepare the Ten Year Development Plan as per the instructions to be received from H.E the President/CESRPG.
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I kindly submit the above information regarding the measures taken and observations regarding the reports submitted by the Committee on Public Accounts under Standing Order No. 119(4) in relation to the Department of National Planning, for Parliamentary Series No. 182.

Sgd.
Director General
Department of National Planning

Name of the Department : Inland Revenue Department

Parliamentary Series Number : 182

Submission of observations and steps taken with regard to the reports presented to the Parliament by the Committee on Public Accounts in terms of the Standing Order No.119 (4)

Special committee meeting to discuss the measures to be taken to increase the Public Revenue in the face of the current economic crisis
15th June 2022

Shortcomings identified by the committee mentioned in the report	Actions taken by the institution to rectify the shortcomings /current status
<u>The long-term and short –term measures taken with regard to the tax administration</u> Proposals submitted by the Inland Revenue Department. The long-term and short –term measures already taken with regard to the tax administration. • E-services for the registration, filing of returns and payment of tax. • Compliance requirements regarding the current tax matters are being regularly updated through the Web-site. • Online Tax Payment Platform (OTTP) with 15 banks. • Restructuring of the large Taxpayers for close supervision of the tax returns and tax payment and expanded auditing of taxes, assigning a limited number of tax files to each official.(an amount of 8 to 10 files) • Utilization of virtual methodologies over the crisis. • Using the zoom technology for the awareness programmes held in relation to the tax amendments, filling of tax returns. • Facilitating to make further awareness through the awareness video clips and you tube via official web site of the Inland Revenue Department. • Facilitating the officers to work from home. • Taxpayer Registration, Tax Type registration, updating payments, updating information and obtaining clearance certificates. • Introducing the hotline of 1944 of the Inland Revenue Department to solve the issues of the taxpayers.	Compliance requirements regarding the current tax matters are being regularly updated through the Web-site. Accordingly, under the downloads following matters are indicated. 1) As soon as the issuance of the Gazette Notifications and the Tax Acts are get passed 2) Returns which should be provided to the relevant tax types of each Act, Schedules and Guidelines to fill those returns and schedules 3) Quick Guides; <u>Under the Publications of the web-site,</u> 1) Circulars for the clarification of the matters which were passes through each Act and Gazette Notifications 2) Tax tables – Advance Payments, Advance Personal Income Tax tables 3) Interpretation and Rulings 4) Public Rulings <u>Under the Useful Information of the web-site,</u> 1) News and Notifications – i. Regularly inform the due dates, period codes, tax type codes of each tax type ii. Make awareness among the Budget proposals iii. Inform the awareness programs launched for the taxpayers and the community iv. Awareness made by the Simplification of the new amendments and new Acts which were passed

	During the time period of investigation from 22.03.2022 to 05.07.2022, measures were taken to publish 24 Notifications and 53 New Notifications from 06.07.2022 to 27.01.2023 under the <u>News and Notifications</u> 2) Indicate the places of consultation and places for the functions such as registrations and providing of clearance under the guidelines for the taxpayers. 3) Tax Tables for the tax rates which relevant for each year of assessment. 4) Tax calendar for the relevant year which indicate due dates of payments and submission dates of returns for each tax type. 5) Newly uploaded Notices, Acts are included as a list at the “Latest content Listing”. <u>Under the tax types of the Web-site,</u> Updated information regarding the each tax type has been indicated under the respective tax type.
<u>Measures to be taken in future regarding revenue administration</u> • Increased the tax base aligned with new policy changes. • The amendments to the legislation should be brought in expeditiously in Parliament and the modifications to the system be made in compliance with the amendments. The ultimate objective is to collect the lost income. • Conducting awareness programs for taxpayers and officers of the Inland Revenue Department. • Supervising the collection of Tax Revenue on the basis of shares, Large Taxpayers Units Upper units and Central Institutional Units are already established and are being further restructured. • The process of collection of arrears taxes is being further accelerated. • Emphasizing the supervision of tax Return Compliance and Self-Assessments payments. • Giving priority to recover the tax assessments (For the year of Assessment 2018/2019) which were issued recently. • Increase the tax base. • Increasing the number of audits on the basis of speeding up audit and the risk basis.	<u>Income Tax</u> The tax base which decreased by the Inland Revenue (Amendment) Act No.10 of 2021 has been increased by the Inland Revenue (Amendment) Act No. 45 of 2022. Accordingly, tax base has been increased vertically and horizontally. That is, i. Personal relief of 3 million rupees for a year of assessment has been reduced to 1.2 million rupees with effect from 01.01.2023 ii. Removal of expenditure relief of 1.2 million rupees iii. Optimum personal tax rate 18 % was increased to 36% and Corporate Income Tax 14% and 24% was increased to 30% as one value. iv. Decrease the value in between the income slabs for the personal income tax v. Withhold the Advance Personal Income Tax and Advance Income Tax without the consent <u>Value Added Tax</u>

• Paying much attention to the actions which reported tax losses. • Management of declarations under recent tax amnesty. • Taking other administrative actions to increase the tax revenue.	- Decrease the limit to the tax liability of Value Added Tax into 80 million rupees from 300 million rupees. - The Tax rate of 8% increased into 12% from 01.06.2022 and 15% from 01.09.2022. <u>Social Security Contribution Levy</u> Social Security Contribution Levy Act No.25 of 2022 has been implemented with effect from 01.10.2022. Amended Acts for the aforementioned tax amendments have been drafted by the Ministry of Finance and the observations are given by the Inland Revenue Department. 1) Make necessary amendments to the returns which should be submitted by the taxpayers in order to collect revenue in terms of the amendments passed through the amendments made to the Tax Acts. 2) Issuance of the guidelines which relevant to fill the Returns. 3) Issuance of the circulars which relevant for the tax amendments. 4) Issuance of the Notices from time to time make awareness of the taxpayers regarding the tax payments, return submission and regarding the relevant updates. Tax base already has been legally expanded in above 02. Increase the tax revenue through reducing the tax relief allowances and increasing the tax files by removing certain tax exceptions. Increase the revenue of the prevailing files through decreasing the value in between the income slabs for the personal income tax, increasing the personal and corporate income tax rates, decreasing the limit to the tax liability of Value Added Tax and increasing the tax rates. Discussions are being carried out with the Ministry in order to open the tax files for the persons above 18 years of age as stated at the Budget proposals 2023. An opportunity was given to volunteer disclose for a person who had undisclosed taxable
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	supply, income or asset on or before 31st of March 2020 as per the Finance Act No. 18 of 2021 by applying a 1% on the market value of the respective asset before 31st of March 2022. Accordingly, 4200 declarations were received to the Inland Revenue Department where 3110 were already accepted. Remaining declarations will be rejected or accepted depending on the compliance of the taxpayer. Inland Revenue Department had collected an amount worth of 4052 million rupees as the tax on voluntary disclosure. New opportunity was created to open tax files through enabling to get registered at the department during the voluntary disclosure. By making clarifications in related to the Tax Law and making awareness with respect of filling of Tax Returns and the said awareness programs are uploaded through the "You Tube" for the convenience of taxpayers and all public.
<u>Progress of the directives given by the Committee.</u> The re-payment of default taxes by some of the leading companies, reducing the three-appeal stages to one, disposal of the tax appeals within a period of six months and the mandatory payment of 50% of the tax assessment by the taxpayer. The Commissioner General of Inland Revenue is legally bound to dispose of tax appeals within two years in terms of the old Act. (Act bearing No, 10 of 2006). Therefore, the Accounting Officer of the Inland Revenue Department has stated that as indicated by the committee, it will not be allowed for a period of 5 years and even if an amount of 50% from the tax assessment was not paid as suggested by the committee, the taxpayer has to pay any amount. The Chief Accounting Officer has stated that the Cabinet Memorandum which includes the recommendations issued by the Committee on Public Accounts (COPA) has been approved by the Cabinet of Ministers and further actions will be taken by the legal draftsman. The bill which includes the amendments made to the Tax Appeals Commission is being drafted. <u>Recommendations</u>	Respective particulars have been forwarded to the Secretary to the Ministry of Finance through the letter No. ACT 10/06 dated 13.09.2021. Draft has not yet been received to provide the observations.

• Spending more time to dispose a tax appeal by the tax Appeals Commission and making arrangements to avoid the tax evasion by major companies for a long period of time.	
<u>Recovery of Betting and Gaming Levy (BGL)</u> The Accounting Officer has stated that the due tax amounts have been paid by two companies, an order has given to the other taxpayer by the Supreme Court that to reveal the facts of whatever the reasons of the inability of paying taxes and the said case is still not finalized. <u>Recommendations</u> • Arranging an alternative mechanism to recover the balance amount of the arrears taxes.	• Objections were submitted that issuance of summons to the Directors of the institution by the Marina Colombo Rank Entertainment Holding and Star Dust Rank Entertainment Holding companies (Same persons are indicated as the Respondents of both companies) which are not in accurate and Magistrate Court has ordered that that to proceed the case refusing the said objections. • It was ordered to produce the written submissions by indicating the reasons for the non-payment of the due arrears tax amounts mentioned in the certificate and to call the case on 28.06.2022. • The case was not called on 28.06.2022. Even though, it was postponed to 19.07.2022 dated and the said date too again postponed to 23.08.2022 dated. • Written Submissions were produced by the Respondent Party in relation to the non-payment of arrears taxes on 23.08.2022. The date of 27.09.2022 was given to file answers to the Plaintiff Party. • Answers were submitted to the Court by the Inland Revenue Department on 27.09.2022. The dates were fixed to the judgment of the case as at 29.11.2022. If there are any special matters that expect to be said before the judgment, it was ordered to reveal the facts before 14 days through a motion. • On 08.11.2022, "A Payment plan" was submitted by the Respondents to pay the relevant arrears tax by installments within 12 years through a motion by indicating the facts.

	• The Inland Revenue Department rejected the "Payment Plan" in writing and revealed the facts which were submitted by the Respondent Party and the Honorable Magistrate Court ordered that the arrears tax amount should be paid within 7 months. As per the request of the Inland Revenue Department, it was further ordered to pay the first installment on 13.12.2022. • The case was called on 13.12.2022 before the Acting Magistrate and requested an another date by the Respondent Companies for the payment of installments due to existing economic difficulties and agreed to settle the both installments together in the next date. The next trial will be fixed as at 24.02.2023. • While the situation is like this, the Respondent Party submitted a Revised Application to the Western Provincial High Court against the judgment given by the Honorable Magistrate Court under the Case No. HC/RA/133/22 and HC/RA/134/22. Through this revised application requests have been made to remove and/or revise the order given by the Magistrate Court on 31.05.2022 dated and the order given by 29.11.2022 dated. • The case was called by the High Court on 31.01.2023 at first time and by stating that he cannot appear for this case and referred to an another judge and thereafter, the case was postponed as at 13.02.2023.
<u>The expected income from the Tax Revisions</u> The Accounting officer of the Inland Revenue Department stated that proposed Value added Tax (VAT) rates had been adjusted at present, it would be operative with effect from 01st of July 2022 and the telecommunication tax is being recovered at present. • He further stated that other taxes would be operative with effect from 01st of October 2022 and an income increase of Rs. 135 billion is also expected from these tax revisions.	In relation to the interim budget proposals presented to the parliament in 2022, the following tax amendments were also scheduled to be carried out. 1. Income Tax, (i) Threshold subjected to the Individual Income tax and progressive tax rates. (ii) Corporate Income Tax rates. (iii) Threshold subjected to the Pay as you earn (PAYE) and progressive tax rates. 2. Proposed amendments on Value Added

	Tax (VAT) as per the interim budget proposals in the year 2022 as follows; (i) Increasing the tax rate from 8% to 15% on Value Added Tax.(VAT) (ii) Decreasing the threshold subjected to VAT from 300 million rupees to 80 million rupees. Tax rates have been amended through the Value Added (Amendment) Act No.44 of 2022. Accordingly, the tax rate on VAT has been increased 8% up to 12% with effect from 01.06.2022. The revenue on that was received from the month of August 2022 and it was increased 12% up to 15% from 01.09.2022 and the revenue on the same was received in the months of November and December of 2022. Although the reduction of threshold on VAT Rs. 300 million to Rs. 80 million is effective from the first day of October 2022, as the Value Added Tax (Amendment) Act No.44 of 2022 came into effect on November 14 of 2022. Therefore, the registration will be made after the said date. Accordingly, as per the said amendment the tax payments will be received on VAT from the months of January and February of 2023. The tax rate for the Corporate Income Tax has been increased up to 30% with effect from 01.10.2022, as per the Inland Revenue (Amendment) Act No.45 of 2022. Even though, it was due to increase the individual income tax rates as per the Inland Revenue (Amendment) Bill dated 22.10.2022 with effect from 01.10.2022, it was increased with effect from the 01.01.2023 after the Amendment Act passed through from the Parliament right after the Supreme Court Decision. Even though, social security contribution levy was to be implemented on 01.09.2022 subject to the to the income that could have been obtained hereby, due to the implementation of the same is postponed until 01.10.2022, the income target for the year 2022 has been achieved, subject to the income that could have been obtained.
<u>Social Security Contribution Levy Recommendations</u>	In terms of the Social Security Contribution Levy Act No.25 of 2022 exempted articles and exempted services had been sated at the Part 1A and 1B and Part II of the first Schedule

Exploring the possibility by the Chief Accounting Officer, that is, exempting the charging of the Social Security Contribution Levy from essential goods as the final burden of this tax falls on the consumers and the expected income could not be collected by the government.	respectively. Furthermore, the portion of the turnover (percentage) which is liable to tax has been indicated at the Second Schedule. It was a proposal included at the Budget proposals 2022. Due to be implemented with effect from 01.07.2022, in terms of the Bill dated 21.06.2022. However, as per the Act, implementation date was 01.10.2022. Also, the estimated revenue was 140 billion rupees. Numbers of 2,293 of Social Security Contribution Levy returns are received to the Central Document Management Unit (CDMU) as at 03.02.2023 and the tax amount mentioned in the said returns are about Rs. 4,300,899,407.63. In relation to the year 2022. Social Security Contribution Levy has been collected during the months of November and December of 2022. Accordingly, as per the tax amendments proposed by the interim budget of the year 2022, the proposals that have been implemented to directly affect the revenue of 2022 are, 1. Increase the tax rate on Value Added Tax (VAT) from 8% to 15%. 2. Imposition of the Social Security Contribution Levy. By the end of the year 2022, it was possible to achieve an additional income of about 117 billion rupees based on these proposals.
<u>The Impact of the Value Added Tax (VAT)</u> Accounting officer of the Inland Revenue the Department stated that unlike the Social Security Contribution Levy the VAT has no cascading effect on consumers in several times.	Value Added Tax has no cascading effect on consumers.
<u>Measures were taken to recover the arrears taxes</u> Measures were taken to collect the arrears taxes of 169 Billion Rupees under the systems of RAMIS and LEGACY. The Accounting officer stated that steps have been taken to recover an amount of Rs. 15 billion as at March of 2022.	Actions have been taken to recover an amount of arrears taxes of Rs. 45,557,020,546.00 under the Legacy System and an amount of Rs. 12,109,479,896.00 under the RAMIS System as at 31.12.2022. Accordingly, arrangements have been made in order to recover the total amount of Rs. 57,666,500,442.00 for the year 2022.
<u>Granting of huge tax concessions by the government</u> No action has been taken to inform the government regarding the huge negative	Relevant tax revisions were passed based on the cabinet decisions which had been taken according to the Manifesto “Saubagya Dakma”.

impact on the economy due to the loss of revenue and granting huge tax concessions. The A.O. stated that they had informed the Ministry of Finance the repercussions that could have for the country due to this decision.	
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I kindly submit the above information regarding the measures taken and observations regarding the reports submitted by the Committee on Public Accounts under Standing Order No. 119(4) in relation to the Inland Revenue Department, for Parliamentary Series No. 182.

Sgd.

Commissioner General of Inland Revenue
Inland Revenue Department

Name of the Department : **Tax Appeals Commission**

Parliamentary Series Number : **182**

Submission of observations and steps taken with regard to the reports presented to the Parliament by the Committee on Public Accounts in terms of the Standing Order No.119 (4)

Special committee meeting to discuss the measures to be taken to increase the Public Revenue in the face of the current economic crisis
15th June 2022

Shortcomings identified by the committee mentioned in the report	Actions taken by the institution to rectify the shortcomings /current status
<u>Progress related to the recommendations issued by the Committee</u> Progress related to the recommendations issued by the committee regarding non-repayment of outstanding taxes by several major companies, reducing the three stages of tax appeals to one stage, hearing and finalizing tax appeals within 06 months and mandatory payment of 50% of the tax assessment by the taxpayer. Under the previous Act (Act No. 10 of 2006), the Commissioner General of Inland Revenue is legally bound to investigate and finalize tax appeals within 2 years. Therefore, it has been stated by the Accounting Officer of the IRD that, as indicated by the committee, it will not be allowed for a period of five years, and even if 50% of the tax assessment is not paid as suggested by the committee, the tax payer should pay a certain amount as tax. It has been stated by the Chief Accounting Officer that the Cabinet of Ministers has approved the Cabinet Memorandum containing the recommendations issued by the Committee on Public Accounts, and the next steps will be taken by the legal draftsman. The Bill, which includes amendments to the Tax Appeals Commission, is being drafted. <u>recommendation</u> - The Tax Appeals Commission spends a lot of time to examine and conclude a tax appeal and work to prevent tax evasion by major companies for a long time.	In terms of the provisions of the Tax Appeals Commission Amendment Act No. 23 of 2011, it had been stated that the commission should consist of three committees with 9 members. But from the beginning of the commission until the year 2019, only 2 members including the chairman were appointed and only one committee was functioning. From 01.01.2020 to 02.07.2022, all 03 committees were active with all 9 members of the Commission in accordance with the Commission Act. The term of office of 5 persons including the Chairman of the Tax Appeals Commission ended on 02.07.2022. 9 committee members were appointed again from 2022.09.01 and all 3 committees are being operated from 2022.09.20. Accordingly, since all 3 committees have increased the number of meetings held per week and the number of cases to be heard in one session, the inquiry of tax appeals registered till 2021 have been started now. In terms of Section 4 of the Tax Appeals Commission Amendment Act No. 23 of 2011, there shall be a panel of advisors of not more than 10 members known as the "panel", to assist the commission. These posts which have been vacant for a long time, has been filled from 12.12.2022 and accordingly 08 legal advisor members have been appointed. By completing the members of the Advisory Council, tax appeal decisions could be expedited. 05 vacancies of Development Officers approved in the year 2022 to speed up the typing of tax appeal judgments, have been filled by today. Through that, it is possible to speed up the declaration of tax appeal decisions.

I kindly submit the above information regarding the measures taken and observations regarding the reports submitted by the Committee on Public Accounts under Standing Order No. 119(4) in relation to the Tax Appeals Commission, for Parliamentary Series No. 182.

Sgd.
Chairman,
Tax Appeals Commission

Name of the Department : **Department of Fiscal Policy**

Parliamentary Series Number : **182**

Submission of observations and steps taken with regard to the reports presented to the Parliament by the Committee on Public Accounts in terms of the Standing Order No.119 (4)

Special committee meeting to discuss the measures to be taken to increase the Public Revenue in the face of the current economic crisis
15th June 2022

Shortcomings identified by the committee mentioned in the report	Actions taken by the institution to rectify the shortcomings /current status
Recommendations on the Social Security Contribution Levy (SSCL) To explore the possibility of exempting the charging of the Social Security Contribution Levy from essential goods as the final burden of this tax falls on the consumers and the expected income could not be collected by the government.	- Essential goods such as pharmaceuticals have already been exempted from the SSCL. - Exemptions granted for SSCL has been kept at a minimum in order to avoid revenue losses through the tax. In addition, the cascading effect has been reduced by different bases for taxation for various categories of taxpayers: for example, distributors are taxed at 25 percent of the turnover and wholesale and retail traders are taxed at 50 percent of the turnover. - However, based on the requests made by various stakeholders, certain goods and services are to be exempted from the Levy in the future.
Proposals to enhance the collection of revenue and increase the inflow of remittance - Taxation of Cross Border E-Commerce - Introducing/Increasing taxes for specifically identified items e.g consider applying Value Added Tax (VAT) for fabrics under Chapters 50-55, 58 and 60. These goods are generally overvalued since the existing tariff structure consist of a CESS applicable on the weight	Several proposals in this regard have been received by the Treasury which will be considered after the completion of implementation requirements for initial set of tax reforms. The fabrics are currently taxed at zero rate for VAT. This will be considered under the upcoming review of the exemptions granted under VAT and will be removed if found unproductive.

I kindly submit the above information regarding the measures taken and observations regarding the reports submitted by the Committee on Public Accounts under Standing Order No. 119(4) in relation to the Department of Fiscal Policy, for Parliamentary Series No. 182.

Sgd.
Director General
Department of Fiscal Policy

