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செயலாற்றுகை அறிக்கை
PERFORMANCE REPORT

2012

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உள்நாட்டு இறைவரித் திணைக்களம் - இலங்கை
DEPARTMENT OF INLAND REVENUE - SRI LANKA

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உள்நாட்டு இறைவரி ஆணையாளரின்
செயலாற்றுகை அறிக்கை

PERFORMANCE REPORT
OF THE
COMMISSIONER GENERAL OF INLAND REVENUE

2012

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மல்லிகா சமரசேகர

Mallika Samarasekara

දේශීය ආදායම් දෙපාර්තමේන්තුව

உள்நாட்டு இறைவரி திணைக்களம்

DEPARTMENT OF INLAND REVENUE

The Summary of the Performance during the Year 2012

Inland Revenue Department (IRD) could fulfill the Government objective of collecting revenue for development of the country during the year 2012.The total revenue collected by the Department during the year 2012 was Rs. 443,455 Mn. It was a 44.90% contribution to the total Government revenue and 5.85% of the gross domestic production of the Year.

The successful steps taken by the Department to enhance compliance in furnishing tax returns have resulted in an increase in return compliance. Many new files could be opened with the initiatives taken by the Information Branch and Taxpayers Service Unit.

During the year, by regulating tax audits, undisclosed income and turnover amounting to Rs. 331,029 Mn. could be disclosed. Additional taxes imposed during the year were Rs. 14,893 Mn. (Inclusive of setting off refunds against arrears).

The respective enactments stipulate actions and steps to be taken for recovery of tax in default continuously.

The Committee for Interpretation of Tax Laws issued interpretations on 54 cases during the year, in addition to necessary guidelines and instructions on certain provisions of the legislation.

The process of issuing privilege cards to taxpayers to recognize their contribution to the Government revenue is continued and the Taxpayer Service Unit is equipped with officers to assist every person seeking help or information.

Seminars and lectures were organized with a view to educating taxpayers as well as the staff of the Department.

Vision

To be a taxpayer friendly tax administrator delivering excellent service to the taxpaying public, with well-trained and dedicated staff facilitated by fully automated system.

Mission

To collect taxes in-terms of relevant tax and other related laws, by encouraging voluntary compliance while deterring tax evasion and tax avoidance, and

To enhance public confidence in the tax system by administering relevant tax and other related legislation fairly, friendly and expeditiously and thereby facilitate and foster a beneficial tax culture.

Strategic Goals

- To improve voluntary compliance by taxpayers with the tax laws through programs, which encourage and assist in that and detect those who do not comply and, where necessary, take appropriate corrective action.
- To improve the effectiveness of the Department by the application of efficient work methods, technology and better utilization of available resources.
- To enhance the productivity and professionalism of the staff through management and technical training, work experience, and thereby to enable them to contribute more effectively towards the fulfillment, by the Department, of its mission.

PRINCIPAL OFFICIALS

Ms. M. Samarasekara	**Commissioner General of Inland Revenue**
Mr. H. B. A. Seneviratne	**Senior Deputy Commissioner General** Tax policy, planning and Development, Legislation, Rulings and International Affairs, BOI Enterprises
Mrs. D. M. Nanadawathie	**Deputy Commissioner General** Direct Tax Administration, Collection and Clearance and Default Tax Recovery
Mr. K.A.P. Kaluarachchi	**Deputy Commissioner General** Indirect Tax Administration
Mrs. L. Ramanayaka	**Deputy Commissioner General** Investigation, Tax Surveillance and Risk Management
Mr. W.M. Mendis	**Deputy Commissioner General** Economic Research &Planning, Legal, Appeal and Information
Mr. A.L.A. Sirisena	**Deputy Commissioner General** NBT, ICT
Mrs. H.M.C.I. Gunasekara	**Deputy Commissioner General** Human Resources Management

Mr. W.V.P. Karunarathna	**Senior Commissioner** Internal Audit and Assessment Control
Mr. P.A.V. Premarathna	**Senior Commissioner** Zone 1, Unit 3, PAYE, Stamp Duty and WHT (on Interest)
Mrs. K. Dahanayaka	**Senior Commissioner** LTU, DTRU and Collection & Clearance
Mr. K.A.G. Abayarathne	**Senior Commissioner** Corporate tax, WHT (on Specified fees) and Legal
Mr. D.B. Jayasekara	**Senior Commissioner*** Investigation, Zone11, Zone 111, ESC and Betting & Gaming Levy
Mrs. W. Anulawathie	**Commissioner** Human Resource Management
Mr. I.M.B Senevirathna	**Commissioner** Zone – 1
Mrs. R.M.R.W Manchanayaka	**Commissioner** Corporate Tax (units 4, 5, 5A, 5B, 10, 15), WHT (on Specified Fees) and Legal
Mr. D.M.L.I. Dissanayake	**Commissioner** LTU
Mr. A. N. Guruge	**Commissioner** Corporate Tax (units 4A, 5C, 5D, 14, 17 and 1&2)
Mrs. P. Rohini	**Commissioner** Internal Audit and Assessment Control
Mrs. R.M.P.S.K Rajapaksha	**Commissioner** Information
Mr. A.A.D.U. Abesinghe	**Commissioner** Zone II, Unit 03, PAYE, WHT (on Interest) and Employee Services
Ms. D.G.P.W. Gunathilake	**Commissioner** Tax Advisor- Ministry of finance and planning
Mr. J.P.D.R. Jayasekara	**Commissioner** VAT, VAT Registration, Optional VAT and VAT Collection
Mr. D.M.S. Disanayake	**Commissioner** Taxpayer Services and Stamp Duty
Mr. M.G. Somachandra	**Commissioner** Human Resource Development
Mrs. C.H. Weerasingha	**Commissioner** ICT
Mrs. H.M.D. Munasingha	**Commissioner** Default Tax Recovery Unit
Mr. P.G.K. Samarathunga	**Commissioner** VAT Refund and VAT Special Audit
Mrs. S. Karunarathna	**Commissioner** Appeal and Economic Research Unit
Mr. O.P.P.K. Sirisena	**Commissioner** Procurement and Supplies
Mr. K. Dharmasena	**Commissioner** Zone III
Mr. H.M.G. Wijesinghe	**Commissioner** Transfer Pricing Regulation and International Tax Policy
Mrs. B. A. D. D. Herath	**Commissioner *** Tax Policy
Mr. D. B. Dissanayake	**Commissioner *** NBT, ESC, B&G
Mr. D.D.N.P Koralearachchi	**Commissioner *** Appeal

*Note : Duties of the post were assigned subject to approval of the PSC

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Taxes Administered by the Department during the year

Taxes imposed under respective enactments administered by the Department during the year are as follows:

Tax	Enactments
Income Tax	Inland Revenue Act. No. 10 of 2006 as amended by the Acts No.10 of 2007, 9 of 2008, 19 of 2009, 22 of 2011 and 8 of 2012
Value Added Tax (including VAT on Financial services, Advance Tax on VAT and Optional VAT)	Value Added Tax Act. No. 14 of 2002 as amended by the Acts No 7 of 2003, 13 of 2004, 6 of 2005,8 & 49 of 2006, 14 of 2007, 15 of 2008 ,15 of 2009 , 9 of 2011and 7 of 2012
Economic Service Charge	Economic Service Charge Act. No. 13 of 2006 as amended by the Acts No 15 of 2007, 11 of 2008, 16 of 2009 ,11 of 2011 and 11 of 2012
Nation Building Tax	Nation Building Tax Act. No.9 of 2009 as amended by the Acts No 32 of 2009 , 10 of 2011 and 9 of 2012
Betting and Gaming Levy	The Betting and Gaming Levy Act. No. 40 of 1988
Stamp Duty	Stamp Duty Act. No. 43 of 1982 and the Stamp Duty (Special Provisions) Act. No. 12 of 2006 as amended by the Act No 10 of 2008 and 13 of 2011
Share Transaction Levy	Finance Act. No. 5 of 2005 and Finance Act. No. 13 of 2007
Construction Industry Guarantee Fund Levy	
Social Responsibility Levy	Finance Act. No. 5 of 2005, Finance Act No. 11 of 2006 and Finance Act. No. 8 of 2008
Turnover Tax (Northern Province)	The Turnover Tax Act. No. 69 of 1981 as amended

The Department continued to deal with the work of assessment and collection of following taxes, which were in force earlier and have since been repealed.

Tax	Relevant Enactment
National Security Levy	The National Security Levy Act. No. 52 of 1991 as amended
Goods and Services Tax	The Goods and Services Tax Act. No. 34 of 1996 as amended
Save the Nation Contribution	The Save the Nation Contribution Act. No. 5 of 1996 as amended
Surcharge on Wealth Tax	The Surcharge on Wealth Tax Act. No. 25 of 1982 and Act No. 8 of 1989
Surcharge on Income Tax	The Surcharge on Income Tax Act. No. 26 of 1982, Act No. 12 of 1984, Act No. 7 of 1989 as amended
Debits Tax	Debits Tax Act. No. 16 of 2002 as amended by Act No 05 of 2003, 12 of 2007 ,17 of 2009 and 14 of 2011
Estate Duty	The Estate Duty Act. No. 13 of 1980 as amended

PART I - HUMAN RESOURCE MANAGEMENT AND DEVELOPMENT

Chapter 1 - Human Resources

1.1 Approved Cadre, the number in post and vacancies

The following table shows the approved cadre of the Department, the number in post and the vacancies, as at 31, December 2012.

Cadre as at 31.12.2012			
Grade	**Approved Cadre**	**Number in Post**	**Vacancies**
Commissioner General	1	1	-
Senior Deputy Commissioner General	1	1	-
Deputy Commissioner General	6	6	-
Senior Commissioner	5	5	-
Commissioner	22	22	0
Deputy Commissioner	90	87	3
Senior Assessor	750	69	126
Assessor		555	
Senior Tax Officer	1000	521	469
Tax Officer		10	
Combined Service			
Director (Administration)	1	1	-
Accountant	8	5	3
Administrative Officer (Supra)	3	3	-
Translator	9	8	1
Librarian	2	1	1
Public Management Assistant	606	494	112
Budget Assistant	2	2	-
Transport Officer	1	-	1
Driver	74	74	-
KKS	319	291	28
Other			
Engineer	1	1	-
System Analyst	1	1	-
Director (IT)	1	-	1
Deputy /Assistant Director(Information Technology)	6	4	2
Information Technology Officer	12	6	6
Information Technology Assistant	30	16	14
System Controller	3	3	-
System Operator	3	3	-
Data Entry Operator	8	8	-
Receptionist	4	4	-
Supply Assistant	2	-	2
Stamp Conser. Room Assistant	1	-	1
Technical Officer	2	-	2
Building Supervisor	1	-	1
Store man	2	0	2
Carpenter	1	1	0
Total	**2978**	**2203**	**775**

1.2 Promotions

- Mr. H.B.A. Senevirathne, Deputy Commissioner General was promoted to the rank of Senior Deputy Commissioner General with effect of May 22, 2012.
- Mrs. H.M.C.I. Gunasekara was promoted to the rank of Deputy Commissioner General with effect from September 7, 2012.
- Mr. K.A.G. Abhayarathne was promoted to the rank of Senior Commissioner with effect from May 22, 2012.
- Mr. D. B. Jayasekara was promoted to the rank of Senior Commissioner with effect from September 13, 2012.
- Mr. K. Dharmasena was promoted to the rank of Commissioner with effect from May 22, 2012.
- Mr. H.M.G. Wijesinghe was promoted to the rank of Commissioner with effect from September 13, 2012.
- Mrs.B.A.D.D.Herath, Mr.D.B.DissanayakeandMr.D.D.N.P.Koralearchchi were promoted to the rank of Commissioners subject to the approval from the Public Service Commission.
- Six Senior Assessors were promoted to the rank of Deputy Commissioner and;
- Four Assessors were promoted to the rank of Senior Assessor.

1.3 Retirements

The following officers retired from service during the year.

• Mr. K.L.S. Silva	Senior Deputy Commissioner General
• Mr. H.M. Abesinghe	Deputy Commissioner General
• Mr. K.H.N.C. PERERA	Commissioner
• Mrs. S.N.P. Abrew	Commissioner

Other Retirements

• Deputy Commissioner	3
• Senior Assessor	5
• Assessor	6
• Senior Tax Officer	1
• Public Management Assistant	16
• Drivers	6
• KKS	13

<u>Mr. K.L.S. Silva</u>

Mr. K.L.S. Silva joined the Department on December 01, 1978 as an Assessor. He served in various capacities with dedication and reached the rank of Senior Deputy Commissioner General in 2010.He retired from the service on May 21, 2012 having counted 34 years in the Inland Revenue service. Mr. Silva, during the tenure of his office, underwent training and participated in several overseas taxation programs including the Seminar on taxation in Japan in 1986, Tax Modeling Seminar in Vienna in 2000 and Automated Revenue Administration and Treasury Management Information System under FMEP in Korea In 2010.

Mr. H.M. Abesinghe

Mr. H.M. Abesinghe who joined the Department in 1980, reached the rank of Deputy Commissioner General in 2010. He retired from the service on September 12, 2012. Mr. H.M. Abesinghe, during the tenure of his office, underwent training and participated several overseas taxation programs including Seminar on taxation in Japan in 1986, Seminar on Financial tax in Singapore in 2006, Seminar on Practical issues of Tax Policy and Tax Administration in Developing Countries in India in 2006.

1.4 Disciplinary Actions

Category	Balance o/s as at 01.01.2012	Commenced during the year	Concluded during the year	Balance o/s as at 31.12.2012
Assessor	7	3	1	9
Tax Officer	-	-	-	-

1.5 Training

1.5.1 In House Training

Training Branch of the Department conducted regular training courses and examinations for Assessors and Tax officers, with the aim of enhancing their knowledge and improving their analytical skills, particularly in taxation and accountancy. These courses are designed to provide the knowledge on subjects, required to fulfill various service requirements of officers for confirmation in the respective grades.

The Training Branch was shifted to the new building at NawamMawatha in the year 2012.Details of personnel trained and the examinations conducted during the year were as follows.

- **For Assessors**

Course / Examination	Number of Trainees	
Training classes conducted for Assessors in Class 11 Grade 11 for the First Departmental Examination	60	
Training classes conducted for Assessors in Class 11 Grade 11 for the Second Departmental Examination	464	
Second Departmental Examination for the Assessors in Class11 Grade11	1st Attempt 2nd Attempt 3rd Attempt	464 380 114

- **For Tax Officers**

Course / Examination	Number of Trainees
Final Departmental Examination for Tax Officers in Class111 Grade 11 for the confirmation in class 11 Grade 11	01

- **Special Seminars, Work Shops etc**

Subject	No. of seminars/ workshops held during the year	No. of officers attend
Auditing of Credit Vouchers	01	170
Tax implication on convergence to IFRS	01	363
Tax Audits in SME Sector	01	60
Value Added Tax Amendments	01	120

1.5.2 Overseas Training

Arrangements were made for several officials of the Department to participate in training programs, seminars and workshops held abroad, with a view to expose them to the advancements in the administration of tax laws and the best practices of other countries in order to maintain a high level of professionalism as tax administrators. Accordingly, 45officers participated in such training programs during the year. Details of such officers who were sent abroad for seminar and workshops and the training programs they participated are as follows:

	Name and Designation of the Officer	Name of the Program/Seminar/ Workshop	Country of Training	Duration
01	Ms. H.M.C.I. Gunasekara Deputy Commissioner General	SAARC Seminar on Taxpayer Services	Nepal	25.11.2012 - 28.11.2012
02	Ms. K. Dahanayake Senior Commissioner	Asian Tax Authorities symposium “Anti avoidance rules in taxation: striking a balance	Malaysia	03.09.2012 - 05.09.2012
03	Ms. W. Anulawathie Commissioner	SAARC seminar on Taxpayers service	Nepal	25.11.2012 - 28.11.2012
04	Mr. A.N. Guruge Commissioner	Global forum training on EOI: Effective process of peer review	Philippine	23.09.2012 - 26.09.2012
05	Mr. A.A.D.U. Abeysinghe Commissioner	Global forum training on EOI: Effective process of peer review	Philippine	23.09.2012 - 26.09.2012
06	Ms. K.S.B.R.D.S. Karunarathne Commissioner	Commonwealth Association of tax Administrators : 33rd Annual Technical Conference	Malta	12.10.2012 - 16.10.2012
07	Mr. O.P.P.K. Sirisena Commissioner	Global forum training on EOI: Effective process of peer review	Philippine	23.09.2012 - 26.09.2012
08	Mr. K. Dharmasena Commissioner	Taxation of Financial Markets LHDNM - IBFD	Malaysia	28.10.2012 - 01.10.2012
09	Mr. W.S.K. De Costa Deputy Commissioner	SAARC seminar on Taxpayers service	Nepal	25.11.2012 - 28.11.2012

10	Mr. J.A.G. Mahindarathna Deputy Commissioner	Course on Islamic Banking & Finance	Indonesia	15.04.2012 - 17.04.2012
11	Ms. T.G.D.S. Jayawardana Deputy Commissioner	2nd Country visit of Master of Public Management	Thailand	10.09.2012 - 22.09.2012
12	Mr. O.W.N. Gunasekara Deputy Commissioner	Workshop on Taxation on international Transaction	Malaysia	13.05.2012 - 31.05.2012
13	Mr. N.M.M. Mifly Deputy Commissioner	Project Appraisal & Risk Management	USA	12.05.2012 - 07.06.2012
14	Mr. M.W.N. Wickramasinghe Deputy Commissioner	Anti-Money Laundering and Tax evasion	Malaysia	02.05.2012 - 06.05.2012
15	Mr. M.P.S. Aberathne Deputy Commissioner	International Tax Planning for Multinational Enterprises	Netherlands	18.07.2012 - 19.07.2012
16	Ms. K.G.S. Rajinie Deputy Commissioner	Workshop on Taxation on international Transaction	Malaysia	13.05.2012 - 31.05.2012
17	Ms. G.N. Ariyathilake Deputy Commissioner	Introduction to the applications and Negotiations of Tax Treaties: LHDNM-OECD	Malaysia	30.09.2012 - 11.10.2012
18	Ms. J.A.R. Perera Deputy Commissioner	Introduction to the applications and Negotiations of Tax Treaties: LHDNM-OECD	Malaysia	30.09.2012 - 11.10.2012
19	Mr. W.S. Thlakarathne Senior Assessor	Tax Analysis & Revenue Forecasting DUKE	USA	22.062012- 18.07.2012
20	Mr. J.M.S.S. Rathnawardane Senior Assessor	CW Tax Inspectors Course	UK	29.07.2012 - 06.08.2012
21	Mr. M.A. Priyanka Senior Assessor	Tax Analysis & Revenue Forecasting DUKE	USA	22.062012- 18.07.2012
22	Mr. V.G. Rohan Kumara Senior Assessor	Achieving Management Potential	UK	29.07.2012 - 06.08.2012
23	Mr. S.W.D. Premadasa Tax Officer	2nd Country visit of Master of Public Management	Thailand	10.09.2012 - 22.09.2012

PART II – TAX ADMINISTRATION

Chapter 2 - Collection of Revenue

The Department of Inland Revenue collected net revenue of Rs. 443,455,765,090/- (including Social Responsibility Levy which is accounted under Fiscal Policy Department, Stamp Duty which is transferred in full to Provincial Councils and 1/3 of the collection under Nation Building Tax which is transferred to Provincial Councils) during the year 2012.

2.1 Number of Taxpayers and Tax Files

Table 01 shows the number of persons registered with the Department for the payment of tax, as at the end of the year 2012.

Table 01 - Number of Taxpayers and Tax Files as at 31.12.2012		
Income Tax		
Corporate		
Resident Companies	31,536	
Non-Resident Companies	550	
State Corporations, Statutory Boards and State owned institutions	54	**32,140**
Non Corporate		
Individuals	174,627	
Partnerships	16,169	
Bodies of Persons etc.	809	
Employees paying income tax under Pay- As- You- Earn (PAYE)Scheme (as at 31.03.2012)*	533,877	**725,482**
Total Income Taxpayers		**757,622**
Other Taxpayers		
Persons and Partnerships registered for **Economic Service Charge**(ESC)	7,189	
Persons registered for **Value Added Tax** (VAT)	32,124	
Persons registered for **Value Added Tax on Financial Services**	164	
Persons registered for **Optional VAT**	4,595	
Persons registered for **Nation Building Tax** (NBT)	91,702	
Betting Levy Files	1,051	
Gaming Levy Files	4	
Total Other Taxpayers		**136,829**
Employers Registered under PAYE Scheme	10,083	
Withholding Tax on **Interest** (Withholding Agents)	1,841	
Withholding Tax on **Specified fees** (Regular Monthly Schedules Senders)	4,669	
Construction Industry Guarantee Fund Levy	230	
Stamp Duty (Regular quarterly schedules senders)	7,585	**24,408**
Total Number of tax files/ Taxpayers as at 31-12-2012		**918,859**

** Not include employees in the incomplete declarations furnished by Employers*

Note:

i. A separate file is not generally maintained in the Department in respect of any employee, from whose remuneration, tax is deducted under PAYE Scheme, unless such employee has any other income.

ii. Individuals whose income is taxed at source as a final tax (such as interest on deposits, treasury bills and dividends etc.) have not been included in category of non-corporate files.

iii. Non-Government Organizations files amounting of 227 have been included in the aforementioned total number of files.

2.2 Total Revenue Collection

As shown in the Table 02, the total revenue collection for the year amounted to Rs.443,456 million. That indicates a shortfall of Rs 374 million (0.08%) compared to the previous year. The tax revenue has a declining trend in the year mainly due to abolishing of some taxes (Debit Tax, ESC, SRL), granting tax holidays and exemptions for several sectors (construction under special projects, Strategic Development Projects etc) granting several exemption on value of supplies, reduction of tax rates, widening of tax slabs, increasing of personal allowances, reduction of imports, imposition of concessionary tax rates, introduction of simplified VAT scheme etc.

Collection of NBT was increased over the estimated amount for the year by Rs. 13,352 million. As per the policy decision taken, the scope of the Nation Building Tax was widened by adding wholesale and retail trade sector and that would be the reason for the increase.

The ratio of the Inland Revenue contribution to the Government Revenue in the year was 44.49%.When compared to the revenue under each type of taxes with the corresponding estimates, total collection of revenue indicates 98.83% achievement reflecting only a marginal drop.

However, the collection of income tax has gone up by 16% in the year over that of the previous year. When compared with previous year, revenue from withholding tax on interest increased during that year.

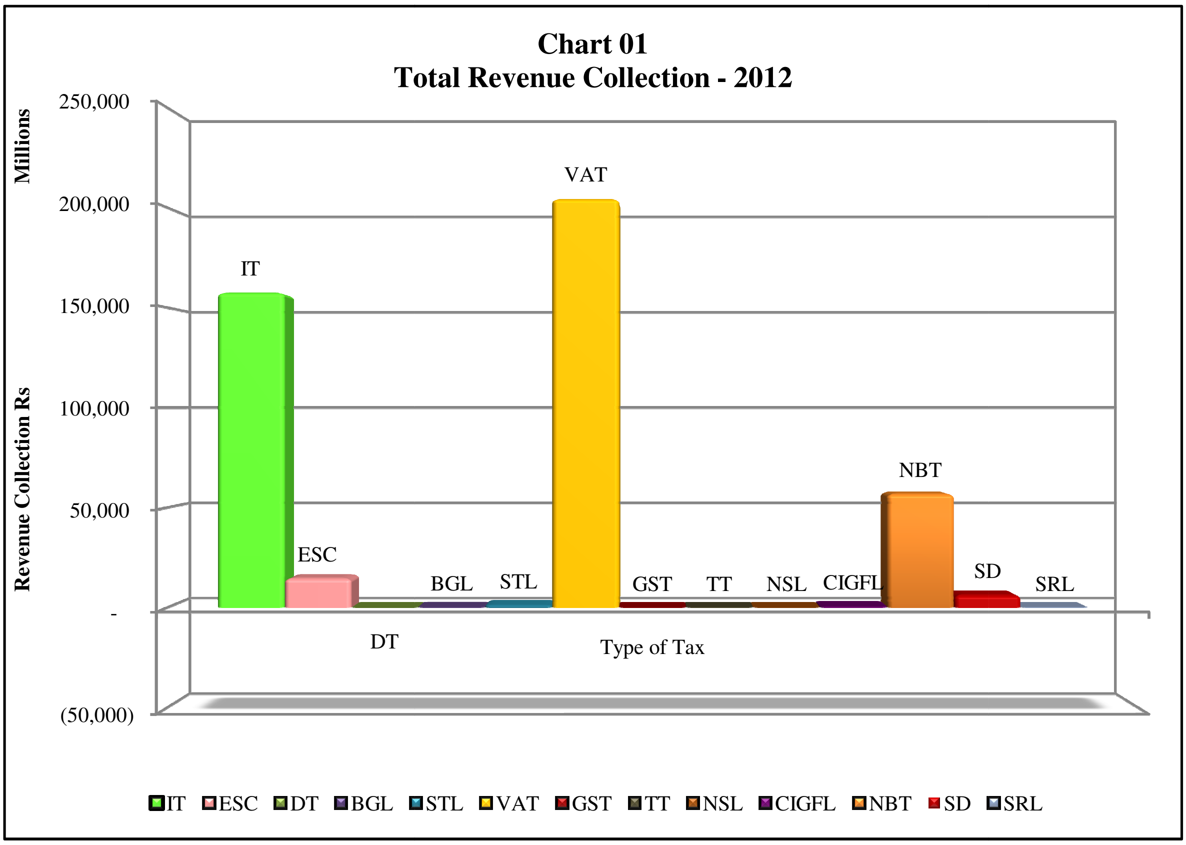
A comparison of revenue under each type of tax with the corresponding estimates is revealed in table 02 and illustrated in chart 01. The cash flow during the year is shown in the table 03, and is illustrated by chart 02.

Table 02 - Total Revenue Collection – 2012				
Type of tax	**Revenue Estimate Rs: (Revised)**	**Revenue Collection Rs:**	**Collection as a % of Estimate**	**Collection as a % of Total Revenue**
Income Tax	159,985,000,000	157,728,902,903	98.59%	35.57%
Economic Service Charge	17,318,000,000	14,864,241,267	85.83%	3.35%
Debit tax	-	(481,999)		0.00%
Betting & Gaming Levy	312,000,000	289,175,098	92.68%	0.07%
Share transaction Levy	2,200,000,000	1,285,744,429	58.44%	0.29%
Value added Tax	223,961,000,000	204,656,032,805	91.38%	46.15%
Goods & Services Tax	18,000,000	11,994,674	66.64%	0.00%
Turnover Tax	25,000,000	138,260,169	553.04%	0.03%
National Security Levy	4,000,000	3,930,354	98.26%	0.00%
Construction Industry Guarantee Fund Levy	950,000,000	709,648,933	74.70%	0.16%
Nation Building Tax*	43,753,190,000	57,105,793,114	130.52%	12.88%
Stamp Duty**	-	6,535,304,353		1.47%
Social Responsibility Levy***	200,000,000	127,218,990	63.61%	0.03%
Total Revenue (Including SRL)	**448,726,190,000**	**443,455,765,090**	**98.83%**	**100.00%**

*Transferred amount of NBT collection to Provincial Council – Rs. 18,369,640,750.

** Transferred amount of Stamp Duty collection to Provincial Council – Rs. 6,535,304,353.

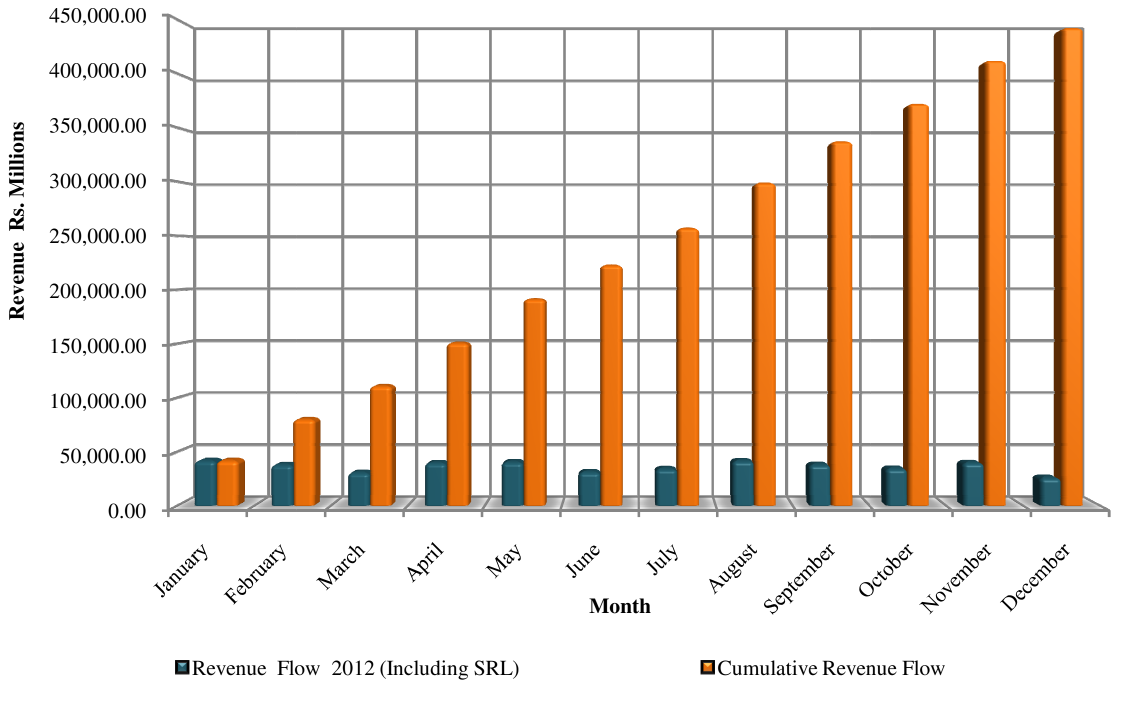
*** Transferred amount of SRL collection to Dept. of Fiscal Policy – Rs.127,218,990.



2.3 Total Revenue Flow

Table 03 - Revenue Flow 2012		
Month	**Revenue Collection (Including SRL) Rs.**	**Cumulative Revenue Collection Rs.**
January	42,075,707,441.00	42,075,707,441.00
February	38,333,272,961.00	80,408,980,402.00
March	30,918,629,787.00	111,327,610,189.00
April	39,878,481,178.00	151,206,091,367.00
May	40,703,956,087.00	191,910,047,454.00
June	31,465,449,849.00	223,375,497,303.00
July	34,440,719,404.00	257,816,216,707.00
August	41,861,114,634.00	299,677,331,341.00
September	38,481,041,717.00	338,158,373,058.00
October	34,840,722,276.00	372,999,095,334.00
November	40,135,654,330.00	413,134,749,664.00
December	26,267,547,878.00	**443,455,765,090.00**

Chart 02
Revenue Flow- 2012



Type of tax	2012 Revenue Collection Rs:	2011 Revenue Collection Rs	Increase/ decrease of Collection as a %
Income Tax	157,728,902,903	135,973,513,529	16.00
Economic Service Charge	14,864,241,267	21,335,091,270	-30.33
Debit tax	(481,999)	4,232,322,781	-100.01
Betting & Gaming Levy	289,175,098	286,881,858	0.80
Share transaction Levy	1,285,744,429	3,263,518,189	-60.60
Value added Tax	204,656,032,805	215,419,828,725	-5.00
Goods & Services Tax	11,994,674	25,543,709	-53.04
Turnover Tax	138,260,169	130,615,686	5.85
National Security Levy	3,930,354	14,743,435	-73.34
Construction Industry Guarantee Fund Levy	709,648,933	1,106,035,868	-35.84
Nation Building Tax	57,105,793,114	53,501,015,453	6.74
Stamp Duty	6,535,304,353	7,217,344,951	-9.45
Social Responsibility Levy	127,218,990	1,323,560,600	-90.39
Total Revenue (Including SRL)	**443,455,765,090**	**443,830,016,054**	**-0.08**

2.4 Transfer of Revenue from Stamp Duty and Nation Building Tax to Provincial Councils

In terms of respective legislative provisions made pursuant to the Budget proposals 2011 the following categories of revenue collected by the Commissioner General of the Inland Revenue has been transferred to the Provincial Councils.

Table 04 shows the amount of tax revenue transferred to provincial Councils and the total collection of respective taxes by the Department.

Nation Building Tax	33.33% of collection
Stamp Duty	100% of collection

Table 04:- Transfer of Tax Revenue to Provincial Councils -2012

	Amount transferred to Provincial Councils Rs.	Total Collection Rs.
Nation Building Tax	18,369,640,750.00	57,105,793,114.00
Stamp Duty	6,535,304,353.00	6,535,304,353.00

2.5 Collection of Revenue – Self-Assessment Basis and Other

During the year, out of the total revenue collection (excluding VAT & NBT on imports) 4% was collected as non-self-assessment revenue. In 2011, the corresponding figure was 3.48%. As the collection of revenue by encouraging the voluntary compliance is a prime part of the mission of the Department; every effort has been made to collect the revenue under self-assessment basis. Necessary actions taken in this regard and facilities were continually provided for this purpose. Table 05 shows the comparison of figures.

Table 05 :- Comparative Analysis of Collection under Self-Assessment basis and Other						
	2010 (Rs'000)		2011 (Rs'000)		2012 (Rs'000)	
	Self Assessment	Other	Self Assessment	Other	Self Assessment	Other
Income Tax	110,451,338	7,123,922	130,990,294	4,983,219	152,640,354	5,088,549
VAT (Excluding VAT on Imports)	115,100,917	4,884,494	98,826,247	4,283,614	101,816,629	3,370,532
NBT (Excluding NBT on Imports)	18,981,744	328,332	27,950,249	609,927	30,496,246	3,233,290
Others	38,642,159	709,105	38,132,720	802,937	23,485,987	479,049
Total	**283,176,158**	**13,045,853**	**295,899,510**	**10,679,697**	**308,439,216**	**12,171,420**
% to the Total Revenue (Excluding VAT and NBT on Imports)	95.60%	4.40%	96.52%	3.48%	96%	4%

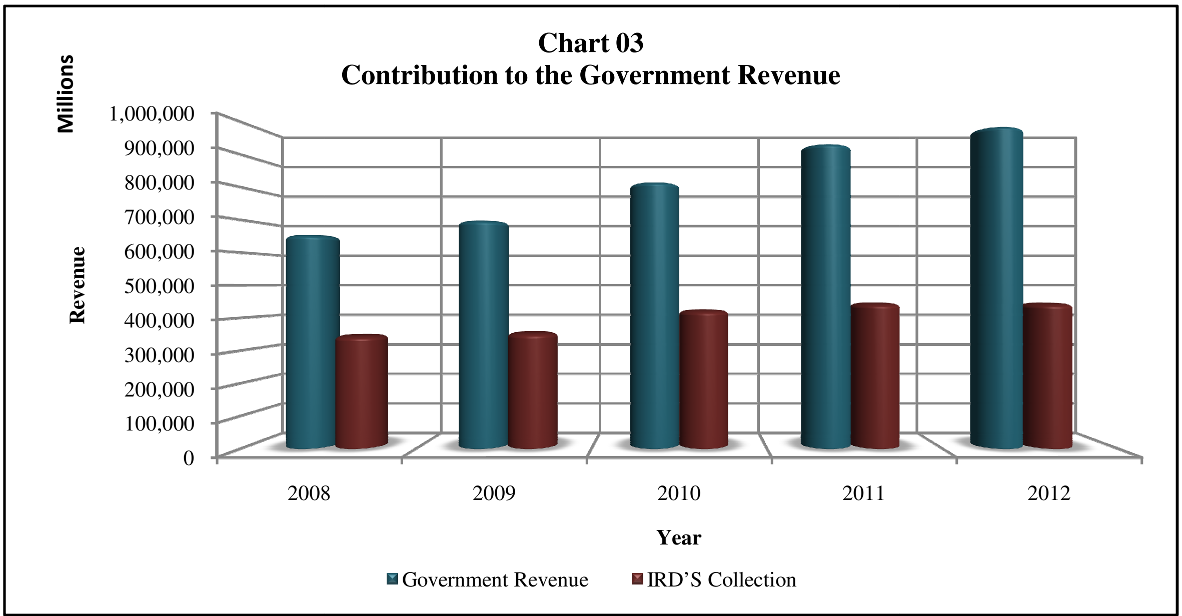
2.6 Inland Revenue Contribution to the Government Revenue

Table 06 shows the contribution of the Inland Revenue Department to the Government Revenue and the GDP in 2012 and its trends in last 4 years. Chart 03 illustrates these contributions. Total Government Revenue in 2012 has increased to Rs. 987,844 million (Annual report of Ministry of Finance Planning- 2012) recording a 44.90% contribution from the total revenue of the government.

Table 06:- Contribution to the Government Revenue and GDP at Current Prices of Major Economic Activities

	Government Revenue Rs. Mn**	IRD'S Collection Rs. Mn *	% of IRD's Collection to Govt. Revenue	GDP at Current Prices of Major Economic Activities Rs. Mn *	Percentage of IRD's Collection to GDP
2008	655,260	344,570	52.59%	4,410,682	7.81%
2009	699,643	353,015	50.46%	4,835,293	7.30%
2010	817,280	422,512	51.69%	5,604,104	7.54%
2011	934,812	443,830	47.48%	6,544,009	6.78%
2012	987,844	443,456	44.90%	7,582,376	5.85%

Source – * **Central Bank of Sri Lanka (Annual Reports) **Ministry of Finance and Planning (Annual Reports)**



2.7 Return Compliance

The programme for enhancing taxpayer compliance in timely filing of tax returns and paying taxes on self-assessment basis continued during the year. Offering benefits to individual taxpayers to enhance voluntary compliance towards the tax laws, such as awarding privilege cards (Gold and Silver), granting tax concessions for importation of motor vehicles, discounts on early tax payments were effectively continued.

Accordingly, during the year of assessment 2011/2012, the percentage of filing corporate income tax returns on the due date was 56% and within one month from the due date, it has increased to 60%. The compliance rate after two months from the due date was 65% in corporate sector.

In the case of non-corporate sector, it was 39% on due date and 48% within one month from the due date. The compliance rate within two months from the due date was 51% in non-corporate sector.

Table 07 shows the income tax return compliance rate on due date, and within one month from the due date of the years 2007/2008 to 2011/2012. Table 08 shows the rates of return compliance on other taxes.

Table 07 :- Income Tax Return Compliance 2007/2008 to 2011/2012

Year of Assessment	Sector	Compliance on Due Date	Compliance within one month from the due date
2007/2008	Corporate	37%	55%
	Non-Corporate	27%	50%
2008/2009	Corporate	49%	58%
	Non-Corporate	39%	48%
2009/2010	Corporate	52%	66%
	Non-Corporate	41%	53%
2010/2011	Corporate	56%	68%
	Non-Corporate	42%	59%
2011/2012	Corporate	56%	60%
	Non-Corporate	39%	48%

Table 08 :- Return Compliance on Other Taxes

	VAT	ESC	NBT	PAYE	
Year 2010	94%	81%	98%	Year of Assessment 2009/2010	51%
Year 2011	94%	85%	89%	Year of Assessment 2010/2011	63%
Year 2012	89%	80%	79%	Year of Assessment 2011/2012	52%

2.8 Income Tax Collection

Collection of revenue from corporate income tax, personal (individual) income tax, dividend tax and withholding tax on interest increased to Rs.157, 728 million in 2012. This is an excess of 16% when compared to Rs. 135,973 million in 2011.

Increase of the declaration of dividends and distributable profits of the companies, increase of interest rates and investments in banking and financial sectors and receipts of over average revenue as remittance tax during the year were reasons for it. However, there was a decrease in revenue collection of income tax of the corporate sector due to that not achieving the expected revenue growth rate in service sector.

The total income tax collection accounts for 36.20% of total revenue of the Department for the year and that was 30.72% in year 2011.

2.8.1 Main Policy Changes relating to Income Tax during the year.

Exemptions/ Taxation at concessionary rates

New enterprises engaged in any of the following activities and provided that the investment is made on or before 31st March 2015are entitled for tax exemption for certain periods.

i. Agriculture Animal Husbandry or fishing
ii. Manufacture of any article including processing of such article
iii. Provision of services of Information Technology
iv. Software development
v. Business Process Outsourcing
vi. Knowledge Process Outsourcing
vii. Provision of Health Care services
viii. Provision of Educational services
ix. Provision of Beauty care services
x. Provision of Cold room and storage facilities
xi. Tourism
xii. Provision of facilities for Sports and fitness centers services
xiii. Creative work including art work
xiv. Mini hydro power projects

Enterprises engaged in following specified activities are eligible for tax exemption depending on amount of investment. The period of tax exemption and amount of investment are as follows:

Amount of Investment			Period of Tax Holiday
Rs. 300 mn	-	Rs.500 mn	6 years
Rs. 500 mn	-	Rs.700 mn	7years
Rs. 700 mn	-	Rs.1000 mn	8years
Rs.1,000 mn	-	Rs. 1,500 mn	9years
Rs 1,500 mn	-	Rs. 2,500 mn	10 years
Rs. 2,500 mn and above			12 years

i. manufacture of boats, pharmaceuticals, tyres and tubes, motor spare parts, furniture, ceramics, glass ware or other mineral based products, rubber based products, cosmetic products, edible products manufactured out of locally cultivated agricultural products, construction materials or electrical or electronic goods;
ii. manufacture, production or processing of non-traditional goods for export, including deemed exports which shall constitute not less than ninety per centum of the total production and in the case of apparels, seventy five per centum of the total production;
iii. cultivation of food crops or industrial crops;
iv. horticulture;
v. forestry;
vi. animal husbandry in relation to dairy, poultry, swine, goat ect;
vii. provision of services to a person or partnership outside Sri Lanka, for payment where the total amount of such payment shall not be less than seventy per centum in convertible foreign currency;

viii. tourism or tourism related projects;
ix. hotels, guest houses or similar services;
x. infrastructure projects including construction of commercial buildings;
xi. development of any warehousing or storage facility;
xii. power generation using renewable resources;
xiii. establishment of industrial estates, special economic zones or knowledge cities;
xiv. urban housing or town center development;
xv. provision of any sanitation facility or waste management systems;
xvi. development of water services;
xvii. development of internal water ways, or related transport (goods or passengers);
xviii. construction of hospitals and provision of health care services;
xix. repair of aircrafts or maritime vessels or ship breaking;
xx. sporting services (e.g. motor racing or golf course) ;
xxi. information technology;
xxii. software development;
xxiii. business or knowledge process outsourcing;
xxiv. any project in light or heavy engineering industry;
xxv. artificial insemination for cattle (dairy development);
xxvi. provision of educational services ; or
xxvii. any other activity, as may be prescribed by the Minister taking into consideration the development of national economy ;

Concessionary rates

a) Development activities carried out by newly set up branch of a commercial bank – 24%
b) Research and development – an individual maximum rate is 16% and company 20%
c) Value Added Tea – to any grower or manufacturer who has established joined venture with a tea exporter- 12%
d) Handloom Industry – manufacture of locally handloom products for an individual maximum 12% and for a company 12%
e) Healthcare services - an individual maximum rate is 12% and company12%

Other exemptions

(a) **Institutions**

Profits and income (other than dividends and interest) of the following was exempt from income tax :

(i) The Institute of Certified Management Accountants of Sri Lanka;
(ii) The Child Protection Authority

(b) **Source specific exemptions:**

(i) Royalty received from outside Sri Lanka is exempt, if remitted to Sri Lanka through a bank;
(ii) Profits and income from the redemption of a Unit of a Unit Trust or a Mutual Fund ;
(iii) Interest accruing to any person or partnership outside Sri Lanka on a loan granted to any person or partnership in Sri Lanka ;
(iv) Profits and income from the administration of any sport ground , stadium or sport complex ;
(v) Profits and income of a trainer of any sport, being a non-citizen individual who is brought to Sri Lanka for that purpose

2.8.2 Income Tax Collection– Sector-wise Clarification

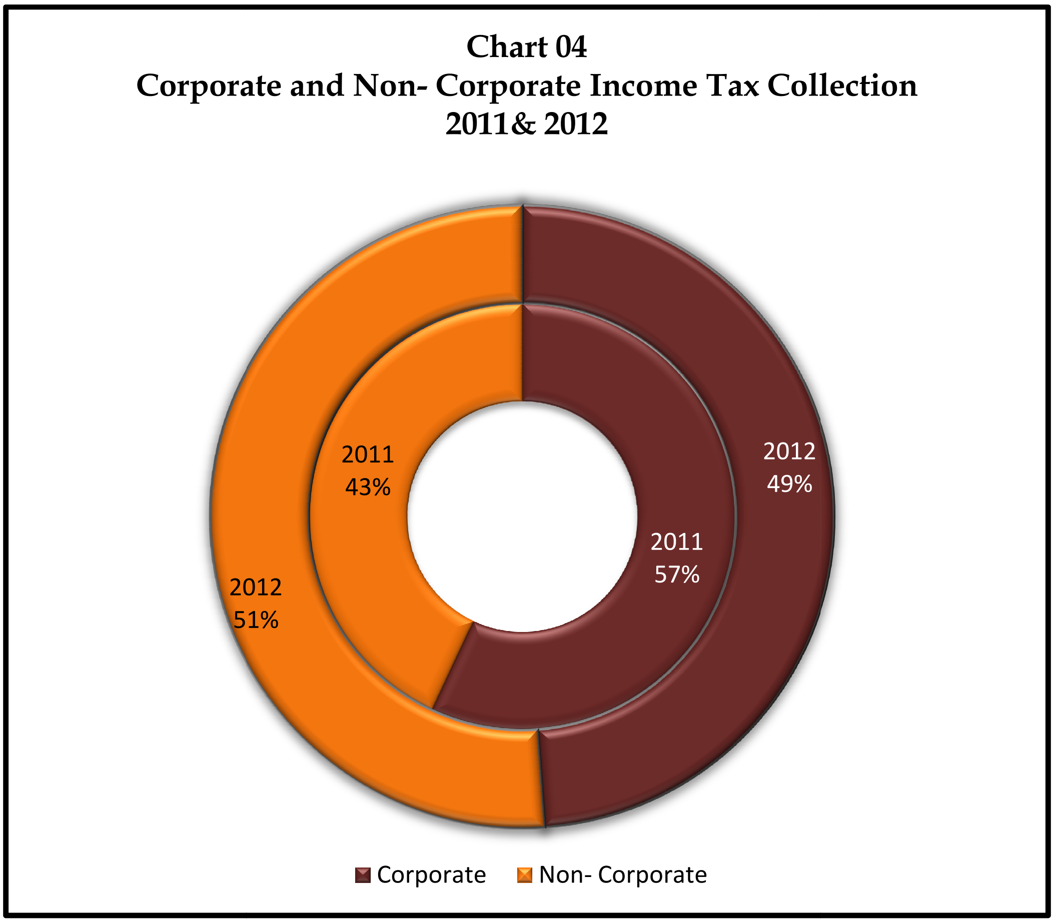
The contribution from the corporate sector to the total income tax collection (Rs.157, 728 million) was amounted to Rs.77, 054 million or 49%of the total Income Tax Collected. The non-corporate sector contributed Rs. 80,674 Million or 51%. Table09 shows the composition and chart 04 illustrates it.

Table 09 : - Corporate and Non- Corporate Income Tax Collection – 2011 & 2012

	2012		2011	
	Tax Collection(Rs.)	%	Tax Collection (Rs.)	%
Corporate*	77,054,016,253.00	49%	77,412,806,959.00	57%
Non- Corporate**	80,674,886,650.00	51%	58,560,706,570.00	43%
Total	**157,728,902,903.00**	**100%**	**135,973,513,529.00**	**100%**

Notes * Includes Dividends Tax of 7, 157 Mn in 2011 & 8,712Mn in 2012

** Includes WHT deducted and remitted from interest income, services rendered by corporate sector and Employees paying income tax under Pay-As-You-Earn (PAYE)



2.8.3 Source-wise Analysis of Income Tax Collection

Table 10 shows the source-wise composition (employment and others) of income tax collected during the year.

Table 10 :-Income Tax Collection – 2012		
Source	**Collection (Rs. Mn)**	
Employment		
PAYE Scheme	14,729.43	
Assessments with penalties with tax in Default	49.83	**14,779.26**
Others		
Self-Assessment and Assessments with penalties	74,839.51	
Withholding tax on interest, deduction on payments of annuities, royalties or management fees	59,624.52	
Other deductions at source	8,769.01	
Gross Collection		**143,233.04**
Less: Refunds		(283.40)
Net Collection		**157,728.90**

2.9 Value Added Tax Collection

The Value Added Tax (VAT) collection of Rs.204, 656 million during the year indicates a shortfall of Rs. 10,763million when compared with year 2011and even when compared with the estimate of Rs.223, 961million for the year, it is a shortfall of Rs.19,304million. However, the part of VAT collected on domestic supplies showed a slight increase over that of the previous year. The VAT collected on imports during the year showed a drastic decline. The total domestic VAT collected for the year was Rs. 105,187 million and this amount was an increase of 2,077million over that of the year 2011, which was Rs.103, 109 million. The total VAT collected on imports during the year 2011 was Rs. 112,309 and in the year, 2012 it was Rs 99,468 million. Some of the reasons for the drop in VAT revenue during the year could be decrease of volume of imported goods, introduction of SVAT scheme (Certain identified persons are not required to pay VAT under the SVAT scheme.) new exemptions granted for some items, special projects etc.

2.9.1 VAT Exemptions introduced during the year

(a) **The import of(following items are classified under the Harmonized Commodity Description and coding system Numbers for custom purposes) :**

- Speakers & amplifiers, Digital Stereo Processors & accessories, Cinema Media players and Digital readers
- Pharmaceutical machinery and spare parts
- Machinery for the manufacture of bio mass briquettes and pallets
- Goods required for the purpose of provision of services of international transportation of Sri Lankan Air Lines ltd, Mihin Lanka (PVT) Ltd ,Air Lanka Catering Services
- Fabric for domestic consumption
- Plant, machinery or equipment imported by any enterprise which is qualified for Income tax exemption under section 16D and 17A and BOI registered, during the project implementation period,
- Green Houses , Poly Tunnels and materials for the construction of green houses and poly tunnels by the growers

(b) **The supply of:**

locally manufactured:

- Hydropower or wind power machinery and equipment
- Turbines
- Canned fish or clay pottery products using locally produced raw materials
- Products using locally procured raw materials for the required specification of the tourist hotels and airlines which promote local value added products
- Specified products to identified State Institution replacing imports
- Research and development services
- Services by the Department of Commerce
- Paintings by the creator of such painting
- Export development rebate paid out of the export development fund
- Services for any international event approved by the Minister of Finance taking into consideration the economic benefit to the country, by conducting such event in Sri Lanka.
- Services provide for improvement of quality , character or value of any fabric or garments
- Locally manufactured palm oil

(c) **The import or the supply of (following items are classified under the Harmonized Commodity Description and coding system Numbers for custom purposes):**

- Lorries and Trucks
- Buses
- Sport equipments
- Machinery use for the production of rubber and plastic products
- Wood
- Raw materials for the manufacture of spectacles and spectacles frames
- Perfumes
- Mammoties, Fertilizer
- Artemia eggs and Peat moss
- Moulding (steel, glass, rubber and plastic)
- Items and spares needed in the poultry industry
- Photo sensitive semi – conductor devices ,sunglasses
- Goods for any international event approved by the Minister of Finance taking into consideration the economic benefit to the country, by conducting such event in Sri Lanka.

(d) **VAT on Financial Services**: The value addition attributable to a Unit Trust or a Mutual Fund from interest , dividend or dealing in debt instruments

VAT Suspension Scheme

Certain changes were incorporated to the VAT Act, which were already being administratively carried out and communicated to tax payers through Guidelines etc for the proper implementation of the SVAT system.

Table 11 shows the sector-wise gross collection of Value Added Tax, refunds and the net collection, which is illustrated in Chart 05

Table 11 :- Value Added Tax Gross Collection and Refunds

Sector	2011		2012				
	Net Collection (Rs. Mn)		Gross Collection (Rs. Mn)		Refunds	Net Collection (Rs. Mn)	
Manufacturing		32,824.88		39,789.50	1,302.22		38,487.28
Non- Manufacturing							
-Services	48,474.19		47,354.91		1,847.31	45,507.60	
-Financial Services	21,721.76		21,090.80		-	21,090.80	
-Optional VAT	89.03	70,284.98	101.48	68,547.19	-	101.48	66,699.88
Imports		112,309.96		99,468.91	0.04		99,468.87
Total		**215,419.82**		**207,805.60**	**3,149.57**		**204,656.03**

Chart 05

Value Added Tax Collection – 2012

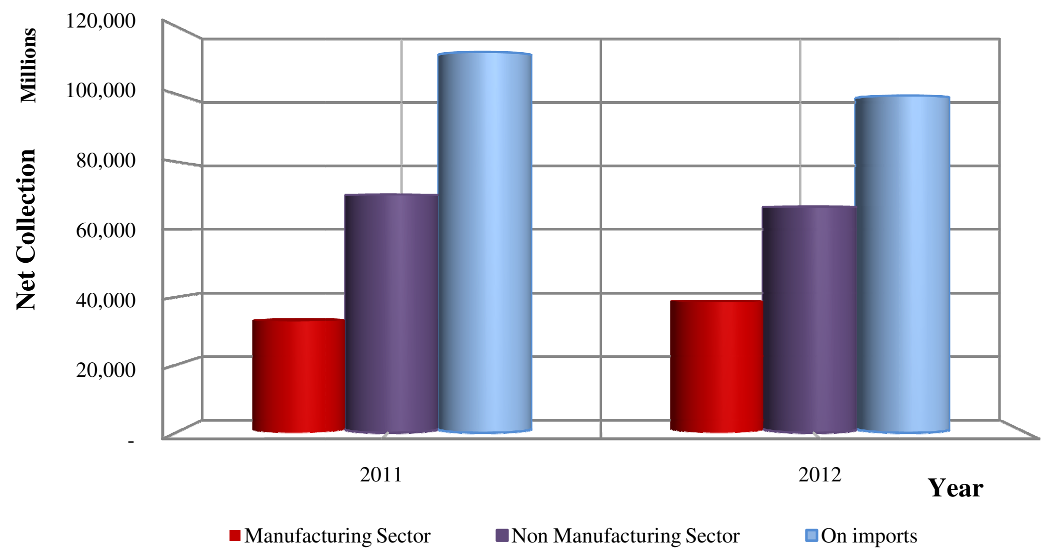


Table 12 shows the sector-wise classification of value Added Tax collection and the contribution to the GDP

Table 12 :- Sector wise Analysis of VAT Contribution to GDP

Sector	2011		2012		Percentage of VAT Collection to GDP	
	Net Collection (Rs)	%	Net Collection (Rs)	%	2011	2012
Manufacturing Sector	32,824,883,451	15.24%	38,487,278,292	18.81%	0.50%	0.51%
Non-Manufacturing Sector	70,284,977,867	32.63%	66,699,883,293	32.59%	1.07%	0.88%
On imports	112,309,967,407	52.14%	99,468,871,220	48.60%	1.71%	1.31%
Total	**215,419,828,725**	**100.00%**	204,656,032,805	**100.00%**	**3.29%**	**2.70%**

2.9.2 Industry-wise Analysis of VAT

Table13shows the domestic VAT classified under banking, insurance, hotel and restaurant, construction, electricity and their contribution to the total VAT revenue.

Table 13 :- Gross Domestic VAT- Manufacturing and Service Sectors					
Sector	**2010 (Rs.Mn)**	**2011 (Rs.Mn)**	**% of decrease /increase (compared to previous year)**	**2012 (Rs.Mn)**	**% of decrease /increase (compared to previous year)**
Banking	21,391	14,828	-30.68%	14,380	-3.02%
Insurance	3,370	4,207	24.83%	4,456	5.92%
Hotel & Restaurant	3,882	4,590	18.24%	5,396	17.56%
Construction	6,077	6,828	12.36%	5,871	-14.02%
Electricity & Gas	151	269	78.23%	570	112%
Imports	11,914	16,103	35.16%	6,949	-56.85%
Financing	13,354	11,072	-17.09%	10,576	-4.48%
Communication	7,111	1,048	-85.27%	211	-79.87%
Petroleum Products	2,438	271	-88.89%	269	-0.74%
Beverage - Alcoholic	10,887	8,877	-18.46%	9,043	1.87%
Services not classified	7,085	7,291	2.90%	7,633	4.69%
Manufacturing not classified	6,507	7,588	16.60%	7,105	-6.37%
Others	25,817	20,139	21.99%	32,723	62.49%
Total	**119,985**	**103,110**	**-14.06%**	**105,187**	**2.01%**

2.10 Nation Building Tax Collection

Collection of NBT for the year was Rs. 57,106 million to the total Revenue. Out of the total NBT revenue, the transferred amount to Provincial CouncilswasRs.18,370 million. Total number of taxpayers registered for NBT as at 31.12.2012 was 91,702. Due to the wholesale and retail trade sector also becoming the registered persons for NBT, the revenue for the year increased by Rs. 13,352 million more than the estimated amount of the year.

2.10.1 Main policy changes relating to NBT

Exemptions (following items are classified under the Harmonized Commodity Description and coding system Numbers for custom purposes) :

(a) Importation of air craft or ships

(b) Importation of artificial parts of the body, crutches, surgical belts ,trusses splints and other fracture appliances wheel chairs, hearing aids, accessories for such aids, white canes for the blind, Braille typewriters and parts , Braille writing papers and boards

(c) Importation of timber logs

(d) Importation of yarn

(e) Importation of fabric

(f) Wholesale or retail sale of :

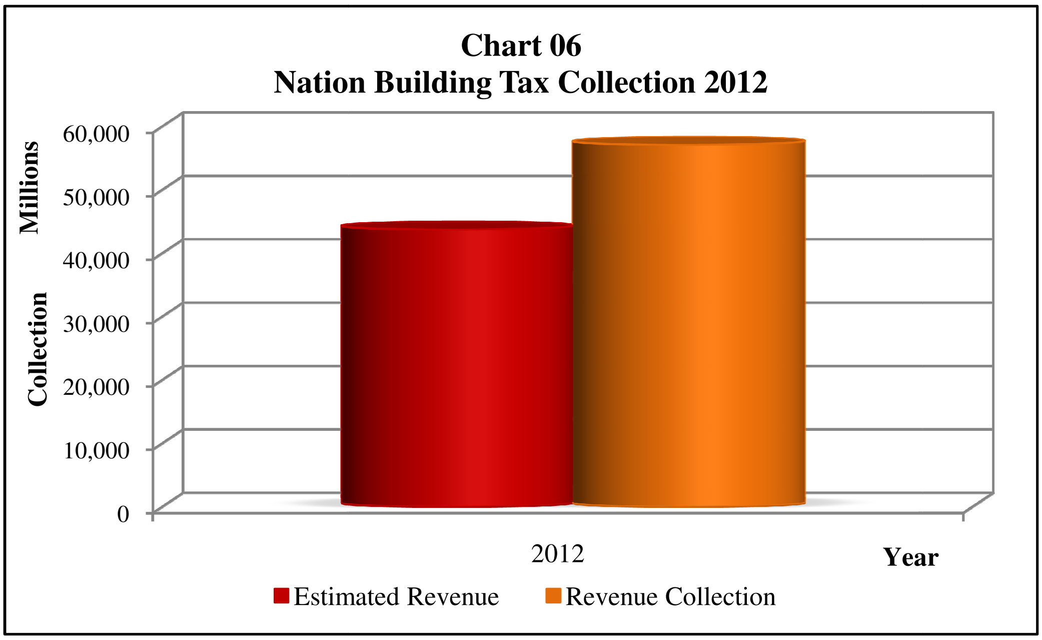
- printed books with effect from 1/7/2011
- goods to exporters
- Fresh milk, green leaf, cinnamon, rubber(latex , crape or sheet rubber) by collectors
- Petrol, diesel or kerosene in a filling station

(g) Sale of locally manufactured clay roof tiles and pottery product by the manufacturer

(h) Sale of paintings by the creator of such painting

Table 14:- Analysis of NBT collection - 2012		
Sector	**Net Collection (Rs.)**	
	2011	**2012**
Manufacturing	10,085,470,339	11,617,896,700
Services	18,474,705,865	22,111,639,351
Imports	24,940,839,249	23,376,257,063
Total	**53,501,015,453**	**57,105,793,114**

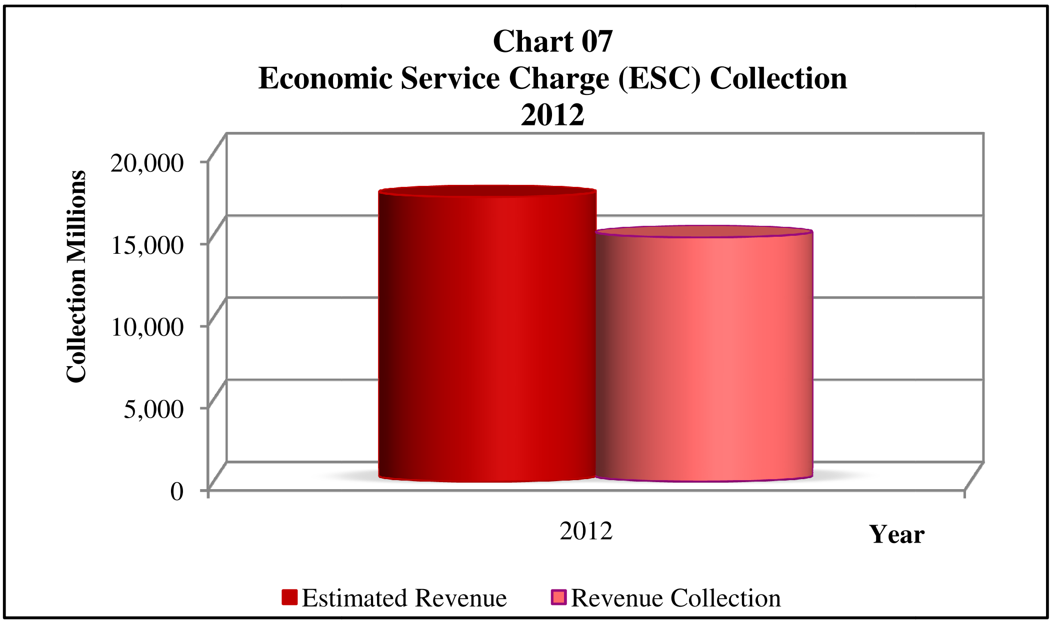
Table 15 :-Nation Building Tax Collection with Estimate			
Year	**Estimated Revenue Rs.**	**Revenue Collection Rs.**	**%**
2012	65,629,785,000	57,105,793,114	87%
2011	51,112,500,000	53,501,015,453	105%



2.11 Economic Service Charge (ESC) Collection

Rs. 14,864 million was collected as ESC during the year and its contribution to the total collection was 3.5%. It is 85.83% of the estimate for the year.

Table 16 :- Economic Service Charge (ESC) Collection			
Year	**Estimated Revenue Rs.**	**Revenue Collection Rs.**	**%**
2012	17,318,000,000	14,864,241,267	86%
2011	21,072,700,000	21,335,091,270	101%



2.11.1 Main Policy changes relating to ESC

Exemptions

- The chargeability to ESC was simplified by removing the liability to ESC on the turnover of any business of which the profits are subject to Income Tax. Accordingly, ESC is payable only on the turnover of any business, the profits for any year of assessment of which are not liable to income tax due to the application of any tax exemption or incurring losses during that period.
- Sale of locally manufactured clay roof tiles and pottery product by the manufacturer

The threshold of ESC was expanded from Rs 25mn to Rs 50mn per quarter.

2.12 PAYE Collection

Gross revenue (Income Tax) collected during the year under PAYE scheme, was Rs. Rs.14,779 million, in comparison to Rs.14,818 million 2011.

The number of employees paying income tax under Pay-As-You-Earn (PAYE) scheme recorded 533,877. (Not including the number of employees in the incomplete declarations furnished by certain employers) and the number of employers registered under PAYE scheme were 10,083.

Table 17:- Analysis of Tax under PAYE and Level of income

Range of Income Rs.		Total Gross Remuneration Rs.	No. of Employees	Tax under PAYE Paid Rs.
Below 600,000	Tax not deducted			
	Tax deducted	86,794,446,890	388,512	162,475,454
600,001-1,100,000		76,983,570,548	96,090	964,814,262
1,100,001-1,600,000		37,316,054,305	29,460	1,112,996,868
1,600,001-2,100,000		15,140,301,666	8,457	768,814,832
2,100,001-2,600,000		8,939,694,416	3,848	624,676,974
2,600,001-3,600,000		15,909,638,651	3,394	991,012,270
Above 3,600,000		30,168,498,466	4,116	5,365,005,074
Total		**271,252,204,942**	**533,877**	**9,989,795,733**

Note: This information is based on records in the completed returns furnished by the Employers for the Year of Assessment 2011/2012

2.13 Withholding Taxes

WHT on interest recorded a revenue of Rs.59,262,107,756/- during the year, which consists of Rs.49,415,264,431/- on Government Securities (Rs.27,385,287,097/- in the year 2011), Rs.8,790,601,147/- from Financial Institutions and the balance from other instruments. Withholding Tax revenue on interest increased by Rs.25,486 million over the previous year collection and it was Rs. 6,688 million more than the estimated revenue in the current year. Interest income on Government Securitas increased during the year.

Rs.344, 211,910/- was collected as deduction from management fees and annuity or royalty payments (Rs. 4,384,168,264/- in the year 2011). As a result of discontinuation of WHT applicable on Specified fees on any rent, lease rent or other similar payments, the revenue from WHT on Specified fees was declined drastically in the year.

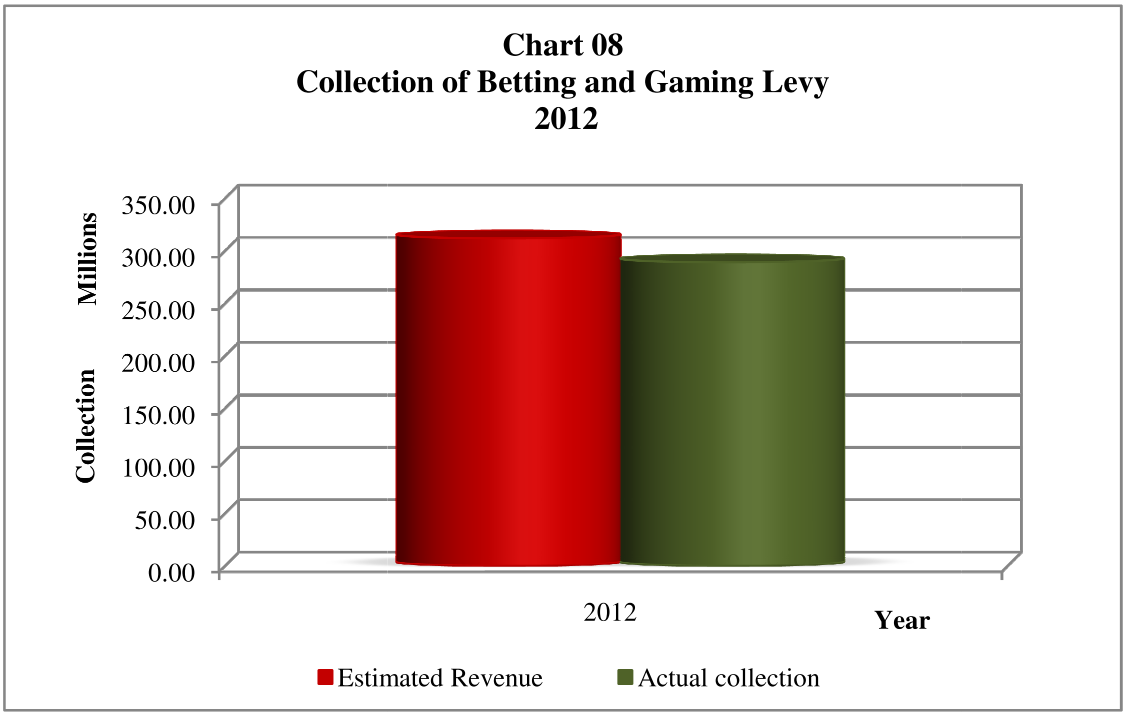
2.14 Betting and Gaming Levy

During the year, revenue from Betting and Gaming Levy was Rs.289,175,098/-. This reflects a decline ofRs.22,824,902/- when compared to the estimate for the year.

Table18compares the revenue estimate of Betting and Gaming Levy with the revenue collected in the year 2011 and 2012

Table 18 :- Collection of Betting and Gaming Levy

Year	Estimated revenue Rs.	Actual collection Rs.	Percentage
2012	312,000,000.00	289,175,098.00	92.68%
2011	300,000,000.00	286,881,858.00	95.63%



2.15 Construction Industry Guarantee Fund Levy Collection

Revenue from Construction Industry Guarantee Fund Levy in 2012 was Rs.709,648,933/-. The total registered payers for this Levy amounted to 230.

Table 19compares the revenue estimate of Construction Industry Guarantee Fund Levy with the revenue collected in the years 2011 and 2012

Table 19 :- Collection of Construction Industry Guarantee Fund Levy			
Year	Estimated Revenue Rs.	Actual Collection Rs.	Percentage
2012	950,000,000.00	709,648,933.00	75%
2011	949,272,000.00	1,106,035,868.00	116.5%

2.16 Stamp Duty Collection

Rs. 6,535 million generated from Stamp Duty during the year. In terms Provincial Councils (transfer of Stamp Duty) Act No 13 of 2011, the total collection of Stamp Duty was transferred to respective Provincial Councils. The Department conducted advisory and supervisory visits with a view to enhance the tax base and accordingly 174 places were thus visited in the year 2012. Number of regular registered compounding agents of Stamp Duty was7,579 (as at 31.12.2011) and out of this 7,574 have furnished Schedules recording 100% compliance.

2.17 Inland Revenue Collection 2008 to 2012

Figures in Table 20 represent the tax-wise classification of revenue collection of the Department, from 2008 to 2012.

Table 20 :- Inland Revenue Collection 2008 to 2012- Tax Wise Analysis

Type of Tax	2008		2009		2010		2011		2012	
	Colln. (Rs. Mn)	%	Colln. (Rs. Mn)	%	Colln. (Rs. Mn)	%	Colln. (Rs. Mn)	%	Colln. (Rs. Mn)	%
Income Tax	112,065	32.52	125,350	35.51	117,575	27.83	135,974	30.64	157,729	35.57
Economic Service Charge	14,476	4.20	14,207	4.02	18,048	4.27	21,335	4.81	14,864	3.35
Value Added Tax	202,984	58.91	171,118	48.47	219,563	51.97	215,420	48.54	204,656	46.15
Debits Tax	8,410	2.44	8,036	2.28	10,843	2.57	4,232	0.95		0.00
Betting & Gaming Levy	270	0.08	269	0.08	295	0.07	286	0.06	289	0.07
Share Transaction Levy	449	0.13	560	0.16	2273	0.54	3,264	0.74	1,285	0.29
Turnover tax	535	0.16	337	0.10	388	0.09	131	0.03	138	0.03
Stamp Duty	3,751	1.09	3,327	0.94	4,440	1.05	7,217	1.63	6,535	1.47
Goods & Services Tax	127	0.04	56	0.02	39	0.01	25	0.01	12	0.00
National Security Levy	68	0.02	17	0.00	23	0.01	15	0.00	4	0.00
Construction Industry Guarantee Fund Levy	230	0.07	571	0.16	830	0.20	1,106	0.25	710	0.16
NBT	0	0.00	27,205	7.71	46,022	10.89	53,501	12.05	57,106	12.88
Social Responsibility Levy	1,206	0.35	1,962	0.56	2,173	0.51	1,324	0.30	127	0.03
Total Collection	**344,571**	**100.00**	**353,015**	**100.00**	**422,512**	**100.00**	**443,830**	**100.00**	**443,455**	**100.00**

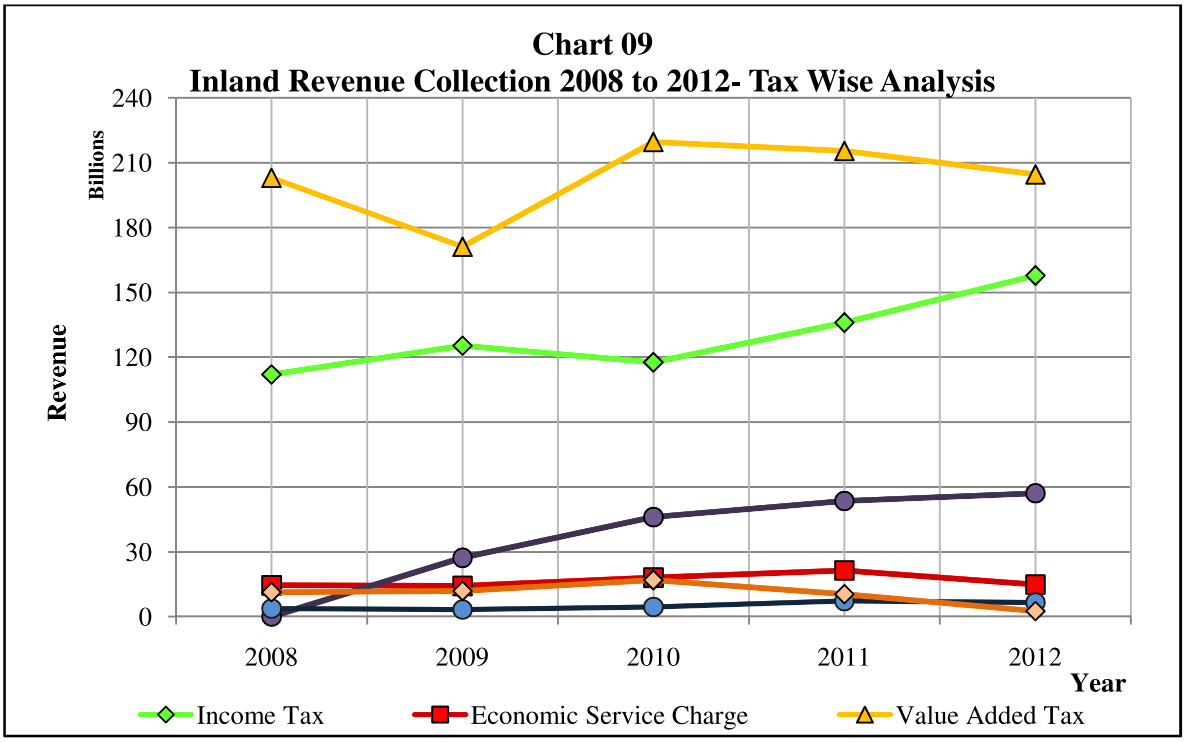


Chart 09
Inland Revenue Collection 2008 to 2012- Tax Wise Analysis
Revenue
Billions
240
210
180
150
120
90
60
30
0
2008
2009
2010
2011
2012
Year
Income Tax
Economic Service Charge
Value Added Tax

Chapter 3 - Expenditure and Productivity Ratio

Total expenditure of the department in the year 2012was Rs. 1,604 million which recorded a 2.82% increase when compared with the previous year's figure of Rs.1, 560 million. Out of the total expenditure, 98% or Rs.1,562 million was spent for recurrent expenditure. In 2011, the corresponding amount was Rs.1,435 million. Expenditure on emoluments increased by 8.91% as against that of 2011 which was Rs. 1,110 million. This was the largest single expenditure item that accounted for 75.40% of the total expenditure and 77.43% of the recurrent expenditure.

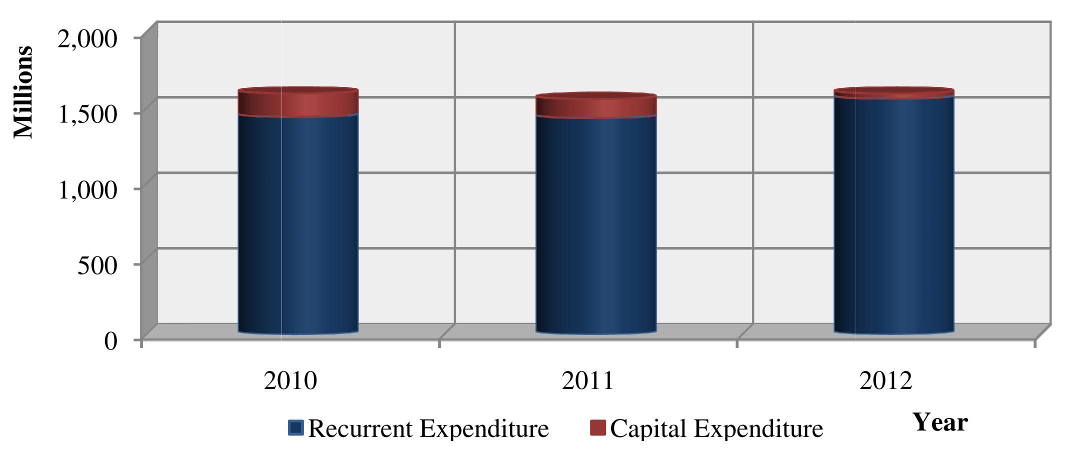
The capital expenditure during the year recorded a decrease of 66.58% when compared to 2011 and reached Rs. 42 million. That was Rs. 125 million in 2011. Out of the total expenditure of the Department, 2.62% represents capital expenditure (Year 2011-8%)

3.1 Comparison of the Total Expenditure incurred during the years – 2010, 2011 and 2012

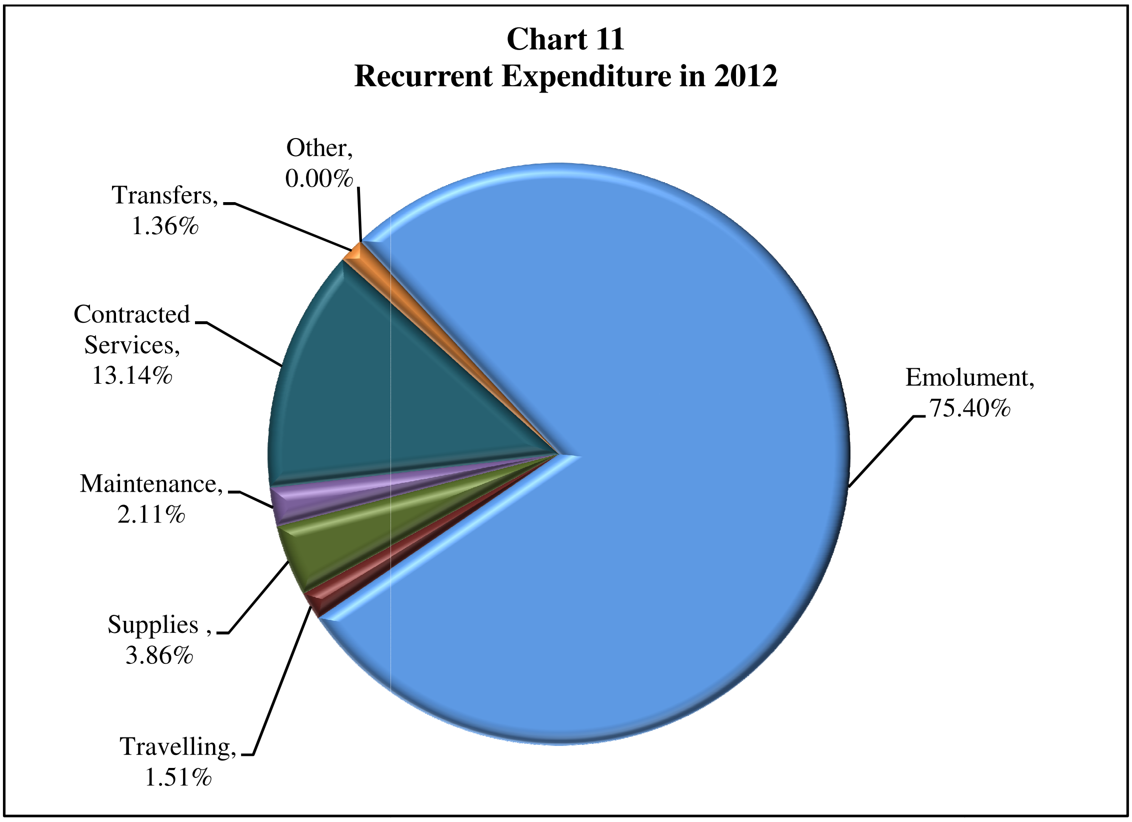
Table 21:- Total Expenditure – 2010, 2011 and 2012

Description	2010 (Rs.'000)	%	2011 (Rs.'000)	%	2012 (Rs.'000)	%
Recurrent Expenditure						
Emolument	1,081,102	67.68%	1,110,669	71.17%	1,209,700	75.40%
Travelling	7,647	0.48%	15,844	1.01%	24,231	1.51%
Supplies	55,603	3.48%	58,217	3.73%	61,851	3.86%
Maintenance	21,650	1.36%	24,457	1.56%	33,851	2.11%
Contracted Services	264,372	16.55%	209,962	13.45%	210,813	13.14%
Transfers	11,309	0.71%	15,427	0.98%	21,761	1.36%
Other	-	0.00%	-	0.00%	60	0.00%
Sub Total	**1,441,684**	**90.25%**	**1,434,576**	**91.94%**	**1,562,267**	**97.38%**
Capital Expenditure						
Rehabilitation and Improvements	131,178	8.21%	108,142	6.93%	19,893	1.24%
Acquisitions of capital Assets	15,636	0.98%	7,717	0.49%	13,875	0.86%
Capacity Building	8,964	0.56%	9,987	0.64%	8,293	0.52%
Sub Total	**155,778**	**9.75%**	**125,846**	**8.06%**	**42,061**	**2.62%**
Total	**1,597,462**	**100%**	**1,560,422**	**100%**	**1,604,328**	**100%**

Chart 10
Total Expenditure – 2010, 2011 and 2012



3.2 Analysis of the Recurrent Expenditure in 2012



3.3 Productivity Ratio

The total expenditure of the Department in the year 2012 was Rs. 1,604,328,950/- and the revenue collected was Rs. 443,455,765,090/-. The productivity ratio (i.e. the revenue collected for every rupee of expenditure) therefore, works out to 276:1. In other words, the cost of collection for Rs. 100/- was 36 cents. The cost of collection for the Rs. 100/- excluding VAT and NBT on imports, accounted 50 cents. (in previous year these amounts were 35 cents and 50cents respectively).

Table 22 provides a classification of Revenue Collection, total expenditure and the cost of collection from the year 2010 to 2012.

Table 22:- Revenue Collection, Total Expenditure and Cost of Collection (Rs. Millions)

Description	2010	2011	2012
Revenue Collection			
Income Tax	117,575.26	135,973.51	157,728.90
Economic Service Charge	18,047.72	21,335.09	14,864.24
Value Added Tax	219,563.12	215,419.83	204,656.03
Nation Building Tax	46,022.52	53,501.01	57,105.79
Debits Tax	10,843.44	4,232.33	-0.48
Betting & Gaming Levy	294.84	286.88	289.18
Share Transaction Levy	2,272.96	3,263.52	1,285.74
Turnover Tax	388.29	130.62	138.26
Stamp Duty	4,439.84	7,217.34	6,535.31
Goods & Services Tax	38.53	25.54	11.99
National Security Levy	23.22	14.74	3.93
Construction Industry Guarantee Fund Levy	829.79	1106.04	709.65
Social Responsibility Levy	2,172.63	1,323.56	127.22
Total Collection	**422,512.16**	**443,830.01**	**443,455.76**

Expenditure			
Recurrent Expenditure			
Emoluments	1,081.10	1,110.67	1,209.70
Travelling	7.65	15.84	24.23
Supplies &Equipments	55.6	58.22	61.85
Repairs & Maintenance	21.65	24.46	33.85
Services	264.37	209.96	210.81
Transfers	11.31	15.43	21.76
Other	-	-	0.06
Capital Expenditure			
Rehabilitation & Improvements	131.18	108.14	19.89
Acquisitions	15.64	7.72	13.88
Building Capacity	8.96	9.98	8.29
Total Expenditure	**1,597.46**	**1,560.42**	**1,604.32**
Cost of Collection per Rs.100/-,- Rs.	**0.37**	**0.35**	**0.36**
Cost of Collection per Rs 100/-, excluding VAT & NBT on imports - Rs.	**0.54**	**0.50**	**0.50**

3.4 The Internal Audit

Audits carried out by the internal audit branch included examining of all payments, daily vehicle running charts (maintained by the Head office and Regional offices), pay sheets, annual board of survey reports, bank reconciliation (Peoples bank, Bank of Ceylon, Central Bank). In addition to these activities, examining the actions taken to recover the amount due on dishonored cheques, refunds relating to income tax and VAT, checking imprest account and imprest cash account were the other main tasks performed by the Internal Audit Branch.

Chapter 4 - Taxes in Default

4.1 Taxes in Default

Table 23 shows the amounts of taxes in default, the taxes held over, penalties and the amount collectible as at 31.12.2012.

Table 23:- Analysis of the Default Taxes – as at 31.12.2012

Type of Tax	Gross Tax in Default Rs.	Penalty Rs.	Disputed Taxes Excluding Penalty Rs.	Penalty related disputed taxes Rs.	Collectible Tax Rs.	Collectible Penalty Rs.
Income Tax	50,305,401,129	30,601,862,973	47,012,449,642	28,688,759,983	3,292,951,487	1,913,102,990
Surcharge on Income Tax	1,038,611,247	530,020,286	1,038,611,247	530,020,286	-	-
Income Tax (WHT on interest	1,347,860,607	598,822,390	1,339,164,721	587,411,045	8,695,886	11,411,345
Value Added Tax	57,737,358,566	28,871,028,556	52,288,968,903	25,984,236,596	5,448,389,663	2,886,791,960
Economic Service Charge	3,613,633,915	2,239,728,273	3,008,210,797	1,933,743,115	605,423,118	305,985,158
Nation Building Tax	2,415,077,042	996,945,014	1,573,451,774	685,015,366	841,625,268	311,929,648
Stamp Duty	50,601,512	15,783,405	-	-	50,601,512	15,783,405
Turnover Tax	4,070,801,595	1,981,825,235	4,070,801,595	1,981,825,235	-	-
Goods & Services Tax	1,022,786,741	1,101,058,280	1,022,786,741	1,101,058,280	-	-
National Security Levy	2,619,575,572	1,038,781,691	2,619,575,572	1,038,781,691	-	-
Save the Nation Contribution	40,639,820	10,803,287	40,639,820	10,803,287	-	-
Wealth Tax	82,010,954	506,656	82,010,954	506,656	-	-
Surcharge on Wealth Tax	2,977,627	-	2,977,627	-	-	-
Gift Tax	14,676,661	1,204	14,676,661	1,204	-	-
Social Responsibility Levy	3,552,149	196,986	3,168,266	148,619	383,883	48,367
Obsolete Taxes	18,732,604	-	18,732,604	-	-	-
202 Penalty&172 Penalty	-	291,814,642	-	118,704,370	-	173,110,272
Total	**124,384,297,741**	**68,279,178,878**	**114,136,226,924**	**62,661,015,733**	**10,248,070,817**	**5,618,163,145**

Note:

i. Total taxes in default represent remained cumulative balances of respective taxes. However, taxes in default as classified above do not fully remain as arrears per se.

ii. Arrears or defaults are created when an assessment is issued for whatever reason (non-furnishing a returns, non-payment of taxes on the basis of returns, furnishing incorrect returns or declarations etc. by taxpayers). Penalty is generally, 10% for the non-payments on due date and further 2% for each month of default until it reaches 50% of tax in the case of income tax and as much as 100% with regard to VAT.

iii. Where the dissatisfied taxpayers have lodged appeals invoking their rights, against assessments and consequently, as such appeals went up to higher appellate levels (Tax Appeals Commission, Courts of Appeal), it is considered as default tax. Such of tax amounts are categorized as disputed taxes, penalties or held over taxes. On the settlement of the appeals , any excess amount assessed together with penalties added has to be discharged

4.2 Plans for reduction of Default Taxes

a. The respective enactments stipulate actions and steps to be taken for recovery of tax in default. Although, such actions were continuously taken after issuing of assessments, considerable amounts of taxes are in default.

b. The Default Tax Recovery Unit has prepared relevant reports of default taxes as provided in the Default Taxes (Special Provisions) Act No. 16 of 2010. (An Act to provide for a streamlined and speedier process for the recovery of taxes in default in certain circumstances and for matters connected therewith and identical thereto).

4.3 Maintenance of arrears of tax at 3%

In terms of section 12 of Default Taxes (Special Provisions) Act No. 16 of 2010, it shall be the duty of the Commissioner General to ensure that the aggregate of any taxes, not including any penalty accrued thereon or any part of tax held over or differed , which is in default under any law specified in the schedule to that Act as at the end of any calendar year commencing on or after January 1, over the aggregate of taxes in default as at the end of the immediately preceding year, shall not exceed three *per centum* of the total tax from the taxes levied and charged under the said laws, in the immediately preceding year.

Accordingly,

Net tax in default as at 31.12.2012	-	Rs.10,248,070,817.00
less		
Net tax in default as at 31.12.2011		Rs.15,191,392,551.00
Decrease of Default Tax in 2012		Rs.(4,943,321,734.00)
Total collection of taxes in the year ended 31.12.2011.	-	Rs.418,778,999,285.00
3% of the total tax collection in 2012.	-	Rs.12,563369,979.00

Therefore, there is no net addition of taxes in default in 2012, thus it is below 3% of total tax collection in the preceding year, as required under the Default Taxes (Special Provisions) Act No.16 of 2010.

Chapter 5 - Audits, Additional Tax Collection, Refunds, Recovery Action and Appeals

5.1 Audits

Audits and investigations were undertaken to a widest possible coverage of the taxpayer population, in terms of business activity, entity type and business size. It has been found that the most productive use of investigation resources has been in respect of the largest taxpayers. In the year under review, the selection process focused heavily on this category resulting in a notable increase in additional tax. Accordingly, audit functions were carried out in a satisfactory level resulting in collection of additional taxes, which are shown in the Tables24 and 25

Table 24 :- Particulars of Audits and Additional Tax Collection during the year (Rs. '000)

	Income Tax	PAYE	VAT	ESC	NBT	Other	Total
Total amount of additional tax assessed during the year	7,509,432	6,212,270	708,538	360,561	2,337,648	1,617,479	18,745,928
Total amount of additional tax collected during the year	6,535,166	4,392,951	359,657	315,364	2,027,799	1,262,564	14,893,501
Number of Audit cases commenced during the year-2012	**7,253**						
Number of Audit cases finalized during the year-2012	**6,925**						

Table 25 :- Classification of Additional Taxes by Corporate and Other Units(excluding penalty)

Description	Additional income/ Turnover assessed & agreed (Rs)	Additional Tax Assessed & Agreed (Rs.' 000)				Additional Tax Collected (Rs) (includes Refunds claims setoff)
		Corporate - LTU	Corporate- other	Other units	Total	
Income Tax	98,629,585	4,938,805	1,611,433	959,194	7,509,432	6,535,166
VAT	25,834,579	3,406,346	2,805,924		6,212,270	4,392,951
ESC	68,936,933	180,970	433,748	93,820	708,538	359,657
PAYE	6,642,378	341,425	19,136		360,561	315,364
NBT	123,611,599	1,881,978	337,538	118,132	2,337,648	2,027,799
Others	7,374,266	1,531,922	68,484	17,073	1,617,479	1,262,564
Total	**331,029,340**	**12,281,446**	**5,276,263**	**1,188,219**	**18,745,928**	**14,893,501**

5.2 Appeals

During the year, the Department has finalized 1,618 appeals received against the assessments issued, and the analysis of appeal position is as follows:

Table 26 :- Analysis of the Appeals Received and Settlement								
		Income Tax	VAT	ESC	NBT	PAYE	Others	Total
Balance as at 01.01.2012	Units (as per APL 2)	357	247	16	5	3	-	**628**
	Appeal Branch (as per APL2)	95	209	-	-	-	-	**304**
	CGIR's Hearing	57	181	36	-	-	1	**275**
Registered (as per APL 2) during the year		**371**	**945**	**54**	**53**	**2**	**4**	**1429**
Finalized	Determined (CGIR)	49	208	28	-	-	-	**285**
	Units (APL 4)	479	436	15	14	5	2	**951**
	Appeal Branch	33	48	7	-	-	-	**88**
Submitted for CGIR's hearing		123	382	20	-	-	-	**525**
Balance as at 31.12.2012	Units (as per APL 2)	147	367	28	39	-	2	**583**
	*Appeal Branch (as per APL2)	41	168		5	-	-	**214**
	CGIR's Hearing	131	355	28	-	-	1	**515**
***Files received to appeal branch during the year**		**102**	**389**	**27**	**5**	**-**	**-**	**523**

5.3 Post VAT Refund Audits

Special VAT audit branch of the Department completed 253cases (files) as post VAT refund audits during the year covering 5,682taxable periods, resulting in the collection of Rs.1,040,168 million as additional tax.

5.4 Recovery Actions

Following Table shows the number of cases attended and notices issued for recovery of taxes during the year.

Table 27 :- Recovery Action		
	Cases	Notices
Issuing Seizure Notices	1867	2201
Prosecution Action	433	695
Other Action	1860	1815

5.5 Refunds

An analysis of refunds made during the year (excluding refunds, which were set off against outstanding taxes) is as follows:

Table 28 :- Refunds Analysis				
Type of tax	**2011**		**2012**	
	Amount of Refund Rs.	**% to Net Revenue Collection of each tax**	**Amount of Refund Rs.**	**% to Net Revenue Collection of each tax**
VAT	6,348,377,132	2.94%	3,149,577,623	1.54%
Co-operate Income Tax	540,952,645	0.69%	194,026,255	0.25%
Other non Co-operate Income Tax	71,879,233	1.28%	55,356,159	0.88%
WHT on Specified fees	11,446,338	0.26%	5,598,717	1.63%
WHT on Interest	5,148,084	0.01%	12,606,388	0.02%
PAYE	21,159,321	0.14%	15,808,330	0.11%
Stamp Duty	1,528,803	0.02%		-
Debit Tax	7,831,808	0.18%	2,430,112	-
NBT	2,771,011,136	5.29%		-
Total	**9,779,334,500**	**2.33%**	**3,435,403,584**	**0.81%**

The Department received 4,110 claims of VAT refunds during the year and 6,836 cases including amount from the previous year balance were finalized by refunding Rs.3,149 million in the year. Out of the total amount refunded during the year, a sum of Rs. 175 million was transferred or set off against the outstanding taxes.

The simplified VAT (SVAT) scheme minimizes the VAT refunds for VAT registered persons who are engaged in exports and special projects by the system of issuing credit vouchers. 949 persons were registered for SVAT scheme during the year.

Table 29:- SVAT Credit Voucher Analysis			
Year	Amount of Refunded VAT Rs.	% to Net Revenue Collection of the year	Value of VAT portion of issued SVAT Credit Voucher Rs. (related to local purchases)
2009	8,400,766,072	4.91%	-
2010	8,869,784,827	4.05%	-
2011	6,348,377,132	2.94%	26,100,132,430 (from April 2011)
2012	3,149,577,623	1.54%	41,991,314,893

Under the VAT system, exporters, special projects and projects approved by the Commissioner General for its implementation period are entitled to claim VAT refunds, and the year 2005 it was Rs.12, 321Mn, with the introduction of suspended VAT with the Textile Quota Board and Export Development Board, refunds were able to be reduced to a certain extent, and therefore, in 2005 it has come down. However, under this SVAT scheme, only raw materials were considered and on other purchase of goods including capital goods and on other services, VAT was paid and refunded.

In 2009 amount refunded was Rs.8, 400,766,072 and 2011, it was Rs.8, 869,784,827. With the introduction of SVAT in 2011, amount refunded has come down toRs.6,348,377,132. In 2012 it has further come down to Rs. 3,149,577,623. However, as far as the VAT suspended by the Commissioner General on purchases is concerned, it is far excess. When amount refunded by the CGIR and the amount suspended by the TQB and EDB are aggregated, it is Rs.13, 923,819,960for the year 2009, Rs. 14,278,415,809 for 2010 and up to March in 2011 it was Rs. 4,190,796,857. When compared to the year 2011 suspended purchases are Rs. 26,100,132,430 (from April 2011) and for the 2012 it is Rs. 41,991,314,893

The other reason for having more suspended purchases is , under this SVAT Scheme monitored by the Commissioner General , more persons are qualified to purchase goods and services when the supply of goods or services to qualified persons are more than 50% of their taxable income. Hence, no VAT is collectible, but prior to this VAT paid was claimed as input tax.

PART III

Chapter 6 - International Relations

6.1 Double Tax Avoidance Agreements

Countries enter into Double Tax Treaties to eliminate or mitigate the incidence of juridical double taxation and fiscal evasions in the international trade (or transactions). These treaties are particularly important for developing countries as they play a great role in attracting foreign investments, expertise, and modern technology etc.

Sri Lanka has as at 31.12. 2012 entered into Double Tax Avoidance Treaties tax treaties with 38 countries and the multilateral treaty as referred to in the table 30.

6.1.1 Details of Double Tax Treaties and Multilateral Treaties

Table 30:- The Countries with which double tax treaties are in force as at 31-12-2012

	Country	Date of Signing the Agreement	Gazette		Operative in Sri Lanka From the Year of Assessment
			No.	Date	
1	Australia	18-Dec-89	657/2	08-Apr-91	1992/93
2	Bangladesh	24-Jul-86	448/13	07-Apr-87	1989/90
3	Belgium	03-Feb-83	292/6	09-Apr-84	1984/85
4	Canada	23-Jun-82	253/8	13-Jul-83	1986/87
5	China	11-Aug-03	1374/20	06-Jan-05	2006/07
6	Denmark	22-Dec-81	228/15	20-Jan-83	1980/81
7	France	17-Sep-81	210/17	17-Sep-82	1982/83
8	Finland	18-May-82	253/8	13-Jul-83	1981/82
9	Germany	13-Sep-79	113	31-Oct-80	1982/83
10	Hong Kong (Limited)	26-Mar-04	1374/21	06-Jan-05	2005/06
11	India	27-Jan-82	210/17	17-Sep-82	1980/81
12	Indonesia	03-Feb-93	789/10	21-Oct-93	1995/96
13	Iran	25-Jul-00	1187/16	06-Jun-01	2002/03
14	Italy	28-Mar-84	322/4	05-Nov-84	1978/79
15	Japan	12-Dec-67	14803/5	29-May-68	1969/70
16	Korea	28-May-84	342/11	29-Mar-85	1980/81
17	Kuwait	05-Feb-02	1245/19	18-Jul-02	2002/03
18	Malaysia	16-Sep-97	1028/21	22-May-98	99/2000
19	Mauritius	12-Mar-96	958/10	15-Jan-97	1998/99
20	Nepal	06-Jul-99	1116/6	26-Jan-00	2001/02
21	Netherlands	17-Nov-82	281/13	26-Jan-84	1979/80
22	Norway	01-Dec-86	464/4	27-Jul-87	1989/90
23	Oman (Limited)	26-Jul-94	881/7	26-Jul-95	1979/80
24	Pakistan	15-Oct-81	210/17	17-Sep-82	1983/84
25	Philippines	11-Dec-00	1237/7	21-May-02	2010/11
			1256/27	02-Oct-02	

26	Poland	25-Apr-80	130	27-Feb-81	1984/85
27	Qatar	07-Nov-04	1422/10	05-Dec-05	2008/09
28	Romania	19-Oct-84	371/9	15-Oct-85	1986/87
29	Russia	02-Mar-99	1101/22	15-Oct-99	2003/04
30	Saudi Arabia (Limited)	16-Dec-99	1101/23	15-Oct-99	1983/84
31	Singapore	29-May-79	57/11	10-Oct-79	1977/78
32	Sweden	23-Feb-83	297/28	18-May-84	1985/86
33	Switzerland	11-Jan-83	292/6	09-Apr-84	1981/82
34	Thailand	14-Dec-88	571/16	18-Aug-89	1990/91
35	U.A.E. (Limited)	07-Jul-92	824/13	23-Jun-94	1979/80
	U.A.E. (Comprehensive)	24-Sep-03	1346/1	21-Jun-04	2004/05
36	U.K.	21-Jun-79	60/23	02-Nov-79	1977/78
37	U.S.A. Protocol	20-Sep-02	1298/8	21-Jul-03	2004/05
	U.S.A	14-Mar-85	398/4	22-Apr-86	
38	Vietnam	26-Oct-05	1455/9	24-Jul-06	2007/08
Multi National Treaties					
39	SARRC Multilateral Treaty	13-0ct-05	1447/3	19-Apr-10	2011/2012

6.1.2 Affairs related to Double Tax Treaties during the Year 2012

Revised Agreement with Germany

Negotiations were held on Revision of Double Taxation Avoidance Agreement with the Federal Republic of Germany during 20th to 24th of August 2012 and the text of the Agreement was initialed at official's level on August 24, 2012 in Colombo.

Revised Agreement with India

Final round of negotiations were held on Revision of Double Taxation Avoidance Agreement with India on February 23, 2012 in Colombo and the text of the Agreement was initialed at official's level on the same date. The Cabinet Approval was obtained on July 19, 2012 and signing at Government Level was pending.

Revised Agreement with Finland

First round of negotiations for the revision of agreement for the Avoidance of Double Taxation and the prevention of Fiscal evasion between Sri Lanka and Finland was held in Helsinki during 3-7 September 2012. As the draft agreement could not be finalized and initialed further negotiations are to be organized in Sri Lanka.

Agreement with Ukraine

Negotiations were held in Colombo during 25-27 April 2012, and concluded having initialed the agreement at official level. Approval of the Cabinet to sign the agreement at Government level and for presenting for the Parliamentary approval is to be taken.

Agreement with Palestine

Negotiations were held in July in Sri Lanka and initialed at official level. Agreement was signed at the Government level and Parliamentary approval for entry into force is pending.

Agreement with Luxemburg

Agreement which was negotiated and initialed at official level in 2010 is ready to sign at Government level.

6.2 Participations at International Taxation Matters Abroad

Table 31:- Participations of International Taxation Matters

No	Name and Designation of the Officer	Programme	Country	Duration
1	Mr. H.B.A. Senevirathne Deputy Commissioner General	Commonwealth Association of tax Administrators Management	Malta	14.04.2012-16.04.2012
2	Mr. H.B.A. Senevirathne Deputy Commissioner General	Proposed Negotiations for the revision of the agreement for avoidance for double taxation between Sri Lanka and Finland	Finland	02.09.2012-06.09.2012
3	Mr. K.A.P. Kaluarachchi Deputy Commissioner General	66th Congress of the International Fiscal Association	USA	29.09.2012-03.10.2012
4	Mr. K.A.G. Abhayaerathne Senior Commissioner	First Meeting of the OECD Global Forum on VAT,	France	06.11.2012-08.11.2012
5	Mr. D.M.L.I. Dissanayake Commissioner	IMF Japan high level tax conference for Asia and Pacific countries “Emergency tax issues in Asian countries	Japan	30.01.2012-03.02.2012
6	Ms. P.G.D.W Gunathilake Commissioner	Proposed Negotiations for the revision of the agreement for avoidance for double taxation between Sri Lanka and Finland	Finland	02.09.2012-06.09.2012
7	Mr. J.P.D.R Jayasekara Commissioner	First Meeting of the OECD Global Forum on VAT,	France	13.10.2012-18.10.2012
8	Mr J.P.D.R Jayasekara Commissioner	Visit to the republic of Angola by a Government delegation to conduct a post due diligence relating to the customs expansion modernization programme	Angola	06.11.2012-08.11.2012
9	Ms. S.N.P Abrew Commissioner	Proposed Negotiations for the revision of the agreement for avoidance for double taxation between Sri Lanka and Finland	Finland	02.09.2012-06.09.2012
10	Mr. A.A Dayarathne Deputy Commissioner	Visit to the republic of Angola by a Government delegation to conduct a post due diligence relating to the customs expansion modernization programme	Angola	06.11.2012-08.11.2012
11	Mr. D.R.S Hapuarachchi Deputy Commissioner	Proposed Negotiations for the revision of the agreement for avoidance for double taxation between Sri Lanka and Finland	Finland	02.09.2012-06.09.2012
12	Ms. P.D.I.P. Jayarathne Assessor	Proposed Negotiations for the revision of the agreement for avoidance for double taxation between Sri Lanka and Finland	Finland	02.09.2012-06.09.2012

Chapter 7 - Legislation

7.1 Legislation enacted during the year

i. Inland Revenue (Amendment) Act No.8 of 2012

ii. Economic Service Charge (Amendment) Act No 11 of 2012

iii. Value Added Tax (Amendment) Act No 7 of 2012

iv. Nation Building Tax (Amendment) Act No 9 of 2012

v. Ports and Airports Development Levy (Amendment) Act No 10 of 2012

7.2 Approved Charities

There were no approvals during the year.

7.3 Gazette Notices

Following Gazette notices were issued during the year under the respective Acts administered by the Department:

Table 32 :- Gazette Notices Published During the Year 2012

	Gazette No	Date	Description
I	1760/4	28.05.2012	Order under Section 08 of Tax Appeal Commission Act No 23 of 2011
II	1778/32	04.10.2012	Order under Section 05 of Stamp Duty (Special Provisions) Act No 12 of 2006
III	1782/20	30.10.2012	Order under Section 34(2)r of the Inland Revenue Act No 10 of 2006
IV	1789/9	17.12.2012	Order under Section 03 of Stamp Duty (Special Provisions) Act No 12 of 2006
V	1789/15	18.12.2012	Order under Section 05 of Stamp Duty (Special Provisions) Act No 12 of 2006

7.4 Interpretation Committee

The Committee for Interpretation of Tax Laws (CITL) was appointed on April 11, 2011 by the Commissioner General of Inland Revenue under Section 208A of Inland Revenue Act No. 10 of 2006 as amended by the amendment Act No. 22 of 2011. This Committee was comprised of senior officials of Inland Revenue Department and Chaired by the Senior Deputy Commissioner General.

Any person, who finds any ambiguity in any provision of any enactment administered by The Inland Revenue Department, can request interpretation thereon to the Committee. (Secretary of Committee, Secretariat, Inland Revenue Department). In addition, the Committee for Interpretation of Tax Laws has been mandated to issue necessary guidelines and instructions as required in order to ensure uniformity with regard to such interpretation and procedures.

Table 33 :- Details of Interpretations given by the Committee during the year 2012		
Tax Type	**Area**	**No. of interpretations issued**
Income Tax	SME sector	01
	Qualifying Payments	01
	Dividends	03
	Exemption under section 17A	02
	Deductions allowed in Ascertaining profits & income	05
	WHT on Debt Securities	08
	Employment Income	07
	Concessionary rates	01
	Rental Income	01
VAT	Deferment facility on imports	02
	Supplies of the company fall within zero rated Category	04
	Investment fund Account	01
	Verification of Supply to Local Market	01
	Exemptions	03
	Liability for VAT	04
NBT	Computation for liable Turnover	06
	What is meant by fully owned Government undertaking	01
	What is meant by service	01
Stamp Duty	Consideration for transferring of shares	01
	Transferring of shares	01
	Total	**54**

Chapter 8 - Other Work

8.1 Taxpayer Service Unit

The Taxpayer Service Unit facilitated the taxpayers and the public to access for Department's service conveniently. The unit is equipped with officers to assist every person seeking help or information. Relevant enactments, Departmental publications, paying slips, forms etc. are available in this unit. To avoid possible delays and inconveniences, arrangements made to issue Taxpayers Identification Numbers (TINs) at this unit were continued. Accordingly, this unit issued 12,750 TIN certificates, during the year. (3,236 temporary Tin applications were forwarded by the unit to Information Branch for opening new files and 8,175 TIN applications to corporate units).

Furthermore, 278 clearance certificates were issued for non-taxpayers and several types of leaflets were prepared during the year for the benefit of taxpayers. More than 200 persons obtained services from Taxpayer Service Unit per day during the year.

Several Taxpayer service activities were organized by the Unit during the year including the participation in "Deyatakirula" programme at Anuradhapura. More over provided tax consultancy services to the taxpayers, organized 34 awareness programs, and prepared several leaflets on taxes and other activities through the "One Stop Shop" established at the ground Floor of the Department.

8.2 Details of the Directions and Clearance Certificates issued by the Department

Table 34:- Directions and Clearance Certificates issued by the Department

Description	2012	2011
Directions issued		
• To employers in respect of PAYE deduction	-	242
• To Banks for WHT on interest	123	175
• In relation to Specific Fees	16	293
Clearance Certificates issued		
• In relation to withdrawals from provident Fund	333	429
• In relation to persons leaving Island	33	46
Privilege Cards Issued		
• Cold Cards	150	197
• Silver Cards	65	71
Certificate issued for tax concession on imports of Motor Cars		
• No of certificates	233	470

8.3 Analytical Reports

The Economic Research and Planning Unit of the Department carried out different types of researches by analyzing data received from various sources such as central Bank, Census & Statistic Department etc.

The following reports were prepared during the year by the Economic Research and Planning Unit

1. Monthly analysis report on VAT (based on TIN & Unit and Activity Code)
2. Monthly analysis report on ESC (based on TIN & Unit and Activity Code)
3. Monthly analysis report on NBT (based on TIN & Unit and Activity Code)
4. Monthly analysis report on IT (based on TIN & Unit and Activity Code)
5. Monthly analysis report on PAYE (based on TIN & Unit and Activity Code)
6. Quarterly VAT Refund Report (30.06.2012, 30.09.2012)
7. Monthly and Quarterly Tax Bulletins (up to 30.10.2012)

Distribution of Staff, Flies and Revenue Among The Assessing Divisions as at 31-12-2012

Assessing Division	Staff							Files								Revenue (Rs. Mn.)								
	DC	SA	A	STO	TO	Other	Total	IT/WHT	NR	VAT/ OPVAT	NBT	PAYE	ESC	B&G/ SD	NGO	IT/DT/WHT/ SRL	PAYE	E .S.C.	VAT/GST/ OPTIONAL VAT	NBT	DT/ STL/ Const	TT/ B&G	STAMP DUTY	Total
International Unit (5B)	1	1	5	2	-	4	13	-	497	76	30	67	25	-	187	2,749.48	458.92	169.54	708.21	161.75	-	-	-	4,247.90
Unit 1&2	1	1	7	8	-	7	24	4,297	-	-	-	-	19	-	-	750.44	-	15.61	1.10	31.72	-	-	-	798.86
Unit 03	1	1	8	9	-	10	29	8,246	-	-	-	-	-	-	-	61.20	-	-	-	-	-	-	-	61.20
Unit 04	1	2	5	5	-	9	22	1,131	-	1,037	941	615	500	-	-	1,119.32	340.42	428.52	2,457.20	1,100.87	-	-	-	5,446.32
Unit 4A	1	2	12	-	6	8	29	5,680	-	2,801	2,843	1,581	331	-	-	1,189.74	209.05	261.10	1,264.04	574.88	-	0.45	-	3,499.27
Unit 05	1	2	5	6	-	5	19	1,020	-	974	973	840	446	-	-	1,190.26	399.83	707.22	3,428.42	1,022.18	-	0.06	-	6,747.97
Unit 5C	1	1	11	1	5	6	25	4,764	16	2,094	1,782	1,345	50	-	-	704.71	284.46	292.92	1,259.02	684.57	-	0.18	-	3,225.86
Unit 10	2	2	14	12	-	5	35	513	-	460	480	470	421	-	-	5,868.59	1,870.80	1,474.06	7,905.39	3,393.20	-	0.66	-	20,512.70
Unit 12(5A)	1	3	4	8	-	6	22	1,095	7	1,130	1,092	1,036	1,019	-	1	2,807.19	699.91	876.51	3,350.08	1,219.20	-	0.31	-	8,953.21
Unit 5D	1	1	8	7	-	7	24	3,451	-	2,089	2,576	1,225	532	-	-	1,007.55	156.02	182.51	1,173.90	477.69	-	0.78	-	2,998.44
Unit 14	1	1	7	9	-	9	27	3,363	-	1,130	1,280	624	313	-	-	330.61	67.87	242.88	1,072.85	702.94	-	0.03	-	2,417.19
Unit 15	1	-	11	7	-	10	29	3,638	-	1,288	1,514	797	656	-	-	462.26	76.15	221.10	1,216.78	674.14	-	0.00	-	2,650.44
Unit 17	1	-	8	8	-	6	23	5,490	-	926	1,376	289	52	-	-	165.83	137.31	62.35	849.25	302.26	-	-	-	1,517.00
Unit 6A	2	2	8	13	-	10	35	227	1	222	219	212	224	-	-	9,594.94	1,340.49	1,765.26	8,028.95	3,921.91	-	5.04	-	24,656.58
Unit 6B	2	-	11	14	-	9	36	201	9	204	189	205	176	-	-	9,520.96	1,114.55	976.69	15,503.51	2,163.84	-	1.32	-	29,280.87
Unit 6C	2	1	14	10	-	8	35	156	7	128	114	138	134	-	-	23,508.58	2,714.64	2,023.82	26,812.34	1,411.59	2.57	0.03	-	56,473.57
Unit 7A	2	1	11	11	-	8	33	235	2	224	202	226	222	-	2	5,981.30	2,310.26	1,855.24	7,971.66	4,545.12	-	-	-	22,663.59
Unit 7B	2	3	10	8	-	6	29	219	3	227	214	212	198	-	-	6,583.66	819.71	724.36	14,606.20	2,673.90	-	7.12	-	25,414.95
Unit 08	2	1	10	12	-	5	30	217	8	222	166	201	211	-	-	3,556.44	1,516.21	1,359.72	5,542.32	1,353.02	-	0.00	-	13,327.71
WHT on Specified Fees	1	1	4	6	-	10	22	4,669	-	-	-	-	-	-	-	1,059.02	-	-	-	-	-	-	-	1,059.02
WHT on Interest	1	-	9	5	-	5	20	1,841	-	-	-	-	-	-	-	59,276.58	-	-	-	-	-	-	-	59,276.58
PAYE	-	-	5	2	-	7	14	-	-	-	-	-	-	-	-	1,180.00	20.37	-	-	-	1,284.06	-	-	2,484.42
Betting & Gaming Levy	1	-	2	1	-	3	7	-	-	-	-	-	-	1,055	-	-	-	-	-	-	-	290.20	-	290.20
VAT Special Audit	1	5	9	13	-	7	35	-	-	-	-	-	-	-	-									
VAT Refund	4	2	15	7	8	14	50	-	-	-	-	-	-	-	-									
VAT Audit Branch	2	1	13	12	-	4	32	-	-	17,066	-	-	-	-	-	-	-	-	4,727.84	-	-	-	-	4,727.84
VAT Registration	1	-	4	2	-	9	16	-	-	-	-	-	-	-	-									
SVAT Audit	1	-	11	9	-	29	50	-	-	-	-	-	-	-	-									
SVAT Super Vision	1	-	3	2	-	2	8	-	-	-	-	-	-	-	-									
Optional VAT	1	-	1	5	-	5	12	-	-	2,436	-	-	-	-	-									
Stamp Duty	1	-	8	8	-	9	26	-	-	-	-	-	-	7,585	-	-	-	-	-	-	-	-	6,529.91	6,529.91
ESC	1	1	3	4	-	1	10	-	-	-	-	-	-	-	-									
NBT	1	-	6	3	3	6	19	-	-	-	-	-	-	-	-	-	-	-	-	36.13	-	-	-	36.13
Regional Offices																								
Colombo South	1	1	14	10	-	14	40	10,615	-	91	1,861	-	139	-	-	730.00	-	93.03	2.09	332.02	-	-	-	1,157.15
Colombo Central	1	2	12	10	-	13	38	14,179	-	24	3,518	-	7	-	-	688.41	-	145.37	2.61	613.96	-	-	-	1,450.34
Colimbo City	1	1	14	11	-	19	46	10,183	-	32	4,728	-	205	-	27	638.28	-	144.22	1.51	618.95	-	-	-	1,402.94
Maharagama East	1	1	6	9	-	12	29	11,234	-	59	2,649	-	1	-	-	284.11	-	47.62	3.11	265.58	-	-	-	600.42
Maharagama West	1	1	9	10	-	13	34	17,312	-	77	4,875	-	216	-	-	302.70	-	43.46	5.15	299.36	-	-	-	650.66
Badulla	1	1	5	7	-	14	28	4,969	-	158	2,326	-	12	-	-	89.81	-	36.17	3.84	161.38	-	-	-	291.20
Galle	1	1	8	10	-	17	37	7,687	-	172	3,222	-	3	-	-	127.25	-	46.17	9.80	180.89	-	-	-	364.11
Kalutara	1	1	8	7	-	18	35	7,818	-	55	4,896	-	158	-	-	118.17	-	39.27	2.64	182.08	-	0.00	-	342.17
Matara	1	1	13	9	-	22	46	9,900	-	126	2,995	-	43	-	-	121.21	-	55.26	5.11	181.79	-	-	-	363.37
Nuwara Eliya	1	1	8	6	-	12	28	3,997	-	171	3,997	-	26	-	10	104.52	-	33.20	4.38	123.78	-	0.00	-	265.88
Rathnapura	1	1	9	9	-	19	39	8,692	-	68	4,250	-	86	-	-	205.37	-	46.57	1.81	209.17	-	-	-	462.93
Anuradhapura	-	1	6	11	-	17	35	5,035	-	196	3,657	-	195	-	-	141.11	-	61.49	7.66	209.66	-	1.22	-	421.14
Gampaha	1	2	14	5	-	8	30	12,490	-	42	5,375	-	-	-	-	219.44	-	81.05	1.87	563.45	-	0.00	-	865.81
Batticaloa	1	-	2	7	-	13	23	4,413	-	74	4,853	-	29	-	-	46.22	-	13.22	0.65	107.21	-	-	-	167.30
Jaffna	1	-	-	1	1	11	14	1,678	-	99	1,581	-	1	-	-	44.48	-	2.53	17.58	121.89	-	1.15	-	187.62
Kandy	2	1	20	13	-	20	56	11,337	-	389	5,706	-	180	-	-	378.33	-	65.81	8.76	317.15	-	-	-	770.05
Kegalle	1	1	7	9	-	18	36	5,467	-	65	2,948	-	4	-	-	85.04	-	17.24	2.00	96.30	-	-	-	200.57
Kurunegala	1	1	14	14	-	23	53	13,017	-	153	4,323	-	85	-	-	182.17	-	45.20	0.46	246.93	-	0.01	-	474.78
Dambulla	1	2	11	8	-	16	38	7,390	-	42	4,795	-	144	-	-	99.54	-	30.36	1.51	183.16	-	-	-	314.58
Negombo	1	2	12	7	-	14	36	11,612	-	56	3,156	-	126	-	-	191.52	-	39.01	1.58	222.50	-	-	-	454.60
Total	**63**	**57**	**454**	**402**	**23**	**562**	**1,561**	229,478	550	36,883	91,702	10,083	7,189	8,640	227	**143,466.35**	**14,536.97**	**14,725.64**	**107,963.21**	**31,688.10**	**1,286.62**	**308.55**	**6,529.91**	**320,505.36**

VAT (Import)	100,188.93
NBT (Import)	23,376.22
Treasury Transfer	3,005.06
Refunds (NBT already Deducted)	(3,435.40)
Adjustments, Unclassified Revenue, Dishonored Cheques and Others	(184.40)
Net Collection (Including Stamp Duty & NBT 1/3 Transferred to Provincial Councils)	**443,455.77**