NEWS ROUND UP

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Sweeping changes to come through proposed amendments to Finance Act

A number of changes proposed to the Finance Act will impose new levies to several sectors including telecommunications, vehicle importation and tourism.

The amendment bill outlines a number of changes to taxes and levies currently in operation while introducing new ones. The amendments gazetted on 10 August, subject to approval by Parliament, propose a new levy called the Annual Company Registration Levy on companies registered under the Companies Act No. 7 of 2007. The Bill also proposes to impose a levy of Rs. 200,000 per annum for each tower from 1 January 2019 on all mobile telephone operators who own cellular compared to the previously proposed Rs. 200,000 per month charge. The amendment also proposes a levy on Short Message Services, charging 0.25 per SMS for all bulk advertising messages, payable by the advertiser. The Bill also proposes a 7 % levy on Value Added Tax (VAT) base termed a Debt Repayment Levy (DRL) to be charged from every financial institution on the value addition attributable to the supply of financial services by each institution.

The Bill also outlines the details of a new levy called Carbon Tax from the registered owner of motor vehicles which fall under the categories of hybrid, fuel or passenger bus as specified in the schedules.

Further, the Bill also provides for the imposition of a Luxury Tax on motor vehicles with cylinder capacity exceeding 2,300 cc in diesel or 1,800cc in petrol or electric power engines that exceed 200 KW, excluding dual purpose petrol vehicles with 2,200cc capacity or electric motor vehicles.

If ratified by Parliament, the amendments will also introduce a Vehicle Entitlement Levy for a select number of vehicles specified in the Bill. .(DailyFT)

UDA confident of LRTs by 2023

The preparation work for Japan and Korea funded Light Rail Transit (LRT) projects are steaming ahead as pre-feasibility studies near completion, with plans by Urban Development Authority (UDA) to call for investment proposals soon.

“There are two different sets of LRT projects on five different lines. The one supported by Japanese International Cooperation Agency (JICA) is nearing the completion of feasibility study and the Environmental Impact Assessment (EIA) process has also been completed now. We will be calling for investment proposals on detailed design and construction work by January 2019,” UDA Chairman Dr. Jagath Munasinghe told media in Colombo yesterday.

According to the feasibility study prepared by the JICA, an elevated light railway line will be built on a 16-kilometre stretch from Malabe to Pettah at an estimated cost of $ 1.7 billion or some Rs. 272 billion by 2024. The Japanese Government has granted this loan package at 1% interest per annum in 40 years with a grace period of 12 years.

Dr. Munasinghe said the other project which involves three different lines had also completed pre-feasibility studies.

In November 2017, the Cabinet approved awarding a consultancy service contract to the South Korean firm Seoyoung Engineering Co. Ltd. (SYE), Saman Corporation for a cost of Rs. 202 million to carry out the pre-feasibility studies prior to the construction of the LRT lines.

“On completion of the pre-feasibility studies, we had a meeting on Wednesday (15). They have already called for Expressions of Interest (EOIs) from different interested parties, where six parties have

responded. Now it is open for detailed feasibility and investment proposals. They have been given time till January next year," he added.

The UDA Chairman pointed out that depending on the responses they receive, construction will start somewhere in 2022.

"I believe the projects will be operating from 2023 to 2025, but we can expect LRTs running in Colombo by 2023," Dr. Munasinghe expressed confidence. .(DailyFT)

Rupee hits record low for second session on importer demand

The rupee hit an all-time low for a second straight session on Thursday, as importers bought dollars amid fears the local currency could depreciate further tracking weakness in emerging-market currencies, dealers said.

Absence of dollar conversions by exporters and remittances also weighed on the market, they added.

The rupee fell to a record 160.55 per dollar, surpassing the previous life low of 160.30 hit on Wednesday. It closed at 160.35/50, compared with Wednesday's close of 160.20/30, and has declined 4.6% so far this year.

"There was heavy importer dollar demand due to global uncertainty. Importers were trying to settle some bills, while some foreign banks also bought dollars," a currency dealer said.

"After initial jerk, the market settled. There was no panic and demand was heavy in the morning when the market opened for trading. We expect similar pressure on Friday morning though some remittances ahead of next week's hajj festival could ease the pressure."

Big importers are expected to buy dollars on Friday given that there are some sizable imports bills to be settled next week, he said, adding that the absence of intervention by the central bank could lead to some volatility.

Exporters and remittance converters are holding onto their dollars as they expect the local currency to decline further, other dealers said.

The Sri Lankan market is also concerned about the Indian rupee's fall as India is Sri Lanka's biggest trading partner. India's rupee, the region's worst performing currency this year, weakened as much 0.6% to a fresh low on Thursday as worries about a widening trade deficit soured sentiment.

Meanwhile, other bruised emerging-market currencies fought to regain their footing, after China said it will hold trade talks with the United States later this month and Turkey's lira continued its recovery run.

Sri Lanka's Central Bank Governor Indrajit Coomaraswamy had told reporters early this month after holding key monetary policy rates steady that several emerging-market currencies had declined more than the Lankan rupee, adding that "if we reduce rates that would put further pressure on the exchange rate."

Sri Lanka earlier this month raised import duties on small hybrid cars by more than 50% to boost revenue and curb a sharp fall in the rupee.

Coomaraswamy had said the rupee's decline was driven mainly by external factors.

Foreign investors sold government securities worth a net Rs. 2.56 billion ($ 15.96 million) in the week ended 8 August, bringing the outflow so far this year to Rs. 39.1 billion, Central Bank data showed. .(DailyFT)

JKH is Sri Lanka's most admired corporate house once again

The 14th edition of LMD's Most Respected entities in Sri Lanka has been released, its publisher Media Services announced recently.

"For a record 13th year, John Keells Holdings (JKH) is perceived as being the Most Respected entity in Sri Lanka thanks to gaining the highest number of Golds," the magazine notes, adding that "JKH has accumulated 265 Gold nominations compared to 296 in the prior year".

MAS Holdings retains its No. 2 ranking for the second year while Hayleys moved up two places to secure third place. Commercial Bank maintains fourth place from last year while Dialog rounds out the top five after having dropped two places.

Amongst the 10 most admired businesses in Sri Lanka are Unilever at No. 6 while Aitken Spence gains three places to occupy seventh place. Brandix Lanka climbs one step up the ladder to eighth and Sampath Bank falls one notch to ninth with Softlogic Holdings improving three places to take the No. 10 slot.

Commenting on LMD's attribute rankings, a spokesperson for Media Services observes: "JKH leads in six of the 10 categories while MAS is perceived as being the most quality consciousness. As for innovation, Dialog Axiata is considered the leader. The Capital Maharaja Organisation helms the CSR category with Sampath Bank being viewed as the most nation-minded."

The special annual edition is available at leading supermarkets and bookshops across the island, and the principal rankings appear on LMD's website (www.LMD.lk), along with profiles of some of the nation's most admired corporate houses.(DailyFT)

Sri Lanka not eligible for ADB soft loans from 2019

Sri Lanka will no longer be eligible for Asian Development Bank (ADB) soft loans from January 2019 given its economic progress and rising per capita gross national income (GNI).

According to the ADB, Sri Lanka will graduate to its Group C countries, under a reclassification, eligible only to borrow from the lender's ordinary capital resources (OCR) from next year.

Sri Lanka is now in group B, known as OCR-blend, for countries eligible both for soft loans and OCR with access to Regular Ordinary Capital resources.

ADB uses a classification system to determine the eligibility of developing member countries (DMCs) to borrow from ordinary capital resources at near-market terms, or at concessional OCR loan terms, or to receive grants from the Asian Development Fund (ADF).

DMCs are classified based on two main criteria, GNI per capita and creditworthiness for regular OCR loans or market-based loans.

Sri Lanka has now graduated above the Per Capita GNI cut-off.

A DMC graduating from either concessional assistance or regular OCR resources may be eligible for these resources again if its economic conditions deteriorate, the ADB said.

Regular market-based OCR loans are generally made to developing member countries that have attained a higher level of economic development while concessional OCR loans are made to lower-income DMCs.

To finance its OCR lending operations, ADB issues debt securities in the international and domestic capital markets.

ADB's debt securities carry the highest possible investment ratings from major international credit rating agencies. .(Economy Next)

Sri Lanka to charge 7-pct tax from banks on added value

Sri Lanka has proposed to charge 7 percent value added style-tax from banks and finance companies, in changes proposed to the Finance Act as a so-called Debt Repayment Levy.

The proposed tax will be calculated "applying the attributable method" referred in the value added tax act 14 of 2002, the bill said.

It is not clear whether customers who take loans can recover the tax, through their value added tax payments.

Banks already pay a non-recoverable value added tax which falls mostly on salaries.

If the 'Debt Repayment Levy' is not recoverable as part of the standard value added tax regime by borrowers, the administration would have added yet another tax to the already complex system and would be going against a promise given to reduce the overall number of taxes and broadbase a few and boost compliance in bid to put the country on a faster growth path.

Banks are considered easy targets for tax, but the overall effect is to push up nominal interest costs.

The proposed changes to the law also allows for discretion to make exceptions, which critics say can lead to corruption.

"The Ministry may, having regard to the economic development of the country by Order published in the Gazette, exempt any transaction of a financial institution specified in such Order, from the payment of the Levy payable under this Part, subject to such condition as may be specified in such Order. .(Economy Next)

Stocks regain composure on US-China trade talk news

European and US stocks rebounded Thursday as news that Beijing and Washington would hold trade talks overshadowed lingering worries over Turkey.

Chinese officials announced they would send a senior negotiator to the United States in late August to resume trade talks, the first publicly announced meeting on the escalating dispute in weeks. US officials also confirmed the talks.

Traders saw a glimmer of hope of an easing in the trade battle that has seen the two sides hit each other with reciprocal tariffs on goods worth $34 billion, although the negotiations will be between lower ranked officials than in previous cases.

"The stakes are now lower, without the big brass physically present at the table," Pantheon Macroeconomics said in a note. "But in a way, this could enable the talks to proceed favorably, with lower-level officials thrashing out a deal on which higher-level talks could be based."

Frankfurt, London and Paris clawed back much of their losses of more than 1.5 percent the previous day on Turkey fears and Chinese growth concerns.

Wall Street stocks also enjoyed a positive session, with the Dow scoring an especially impressive 1.6 percent gain thanks in part to advances by Boeing and Caterpillar, two companies that have been seen as especially vulnerable to a US-China trade war.

"Equity markets have bounced back as traders are a little less fearful about China's slowdown as they once were," said analyst David Madden at CMC Markets UK.

"There are still legitimate fears about China's economy, but for now, bargain hunters are content to snap up copper, and mining stocks like Glencore, BHP Billiton and Rio Tinto," he added.

- US-Turkey tensions linger -

Emerging market currencies staged a modest recovery after a tumultuous week for the Turkish lira, which plumbed record lows against the dollar at the start of the week following a US announcement of tariffs on Turkey.

The lira has clawed back some ground in recent days as regulators cut the ability to speculate against the currency.

It held onto gains on Thursday as the country's finance minister told foreign investors Turkey would emerge stronger from the crisis and has no need for an IMF bailout.

But US Treasury Secretary Steve Mnuchin warned the United States would levy more sanctions on the troubled Turkish economy if Ankara did not soon release a jailed American pastor.

Among individual companies, Walmart shot up more than nine percent after reporting a 4.5 percent jump in comparable sales at US stores in the second quarter, its strongest performance in more than a decade.

The retail giant attributed the gains to sound implementation of its strategy to boost e-commerce ventures, as well as to strong US economic conditions.

Shares in the German chemicals and pharmaceuticals giant Bayer fell 4.6 percent, rocked by media reports of new legal risks stemming from its acquisition of US seeds and pesticides maker Monsanto.

The stock had fallen even more dramatically on Monday after a US jury ordered it to pay almost $290 million in damages to a dying California groundskeeper who said Monsanto's blockbuster weed killer Roundup -- whose active ingredient is glyphosate -- had caused his cancer. .(Economy Next)

Sri Lanka 'carbon tax' burden to fall on poorer, older citizens; EVs exempt

Sri Lanka has proposed higher carbon taxes for older cars, generally owned by less affluent people and older citizens, while lower taxes are proposed for newer cars which are usually owned by richer people in a classic socialist-interventionist move.

The Finance Ministry has proposed taxes of 0.50 cents per cubic centimeter for vehicles less than 5 years old, 1.00 rupee per cc for cars between 5 to 10 years old and 1.00 rupee for cars over 10 years. Hybrid vehicles will be charge half the tax.

In another classic socialist-interventionist move no distinction is made between petrol and diesel cars, though diesel has much more carbon, compared to petrol which has more hydrogen.

Older cars owned by pensioners and older people are usually used only for weekend marketing, while newer cars, especially hybrids owned by rich people travel more and burn more fuel.

Politicians also own new cars imported tax free every few years, and will quality for the lower tax.

In another classic, electric vehicles will be exempt from the carbon tax altogether, though in 2017, 52 percent of electricity was developed by coal which is 100 percent carbon and fuel oil.

Sri Lanka has reduced tariffs for late night/early morning power, where a higher proportion of power is developed from coal to help charge EVs.

The current administration came to power promising to reduce the total number of taxes and encourage compliance by broadening the base and reducing rates, but has broken the promise. Health services has also been charged value added tax, which almost no free country does.

If Sri Lanka wasnts sensible 'carbon' taxation, it should tax diesel and petrol at least equally so that retail diesel prices move above petrol analysts say. Due to higher carbon content in diesel the fuel has a higher calorific vlaue and is priced higher than petrol in free countries and is also more expensvie to import. .(Economy Next)

Sri Lanka slaps company registration renewal fees of up Rs.1.5mn

Sri Lanka will charge 1.5 million rupees in annual renewal fees for incorporated bodies, under new taxes proposed by the finance ministry.

Amendments to the Finance Act propose a 1.5 million rupee annual charge on listed companies, 250,000 on other companies and 30,000 for a private company.

Off-shore companies and companies limited by guarantee will not have to pay the tax.

In the case of default every director, officers responsible for the management and control of the incorporated firm will be liable to prosecution.(Economy Next)