

Private Sector to invest in Off-Shore Fishing and to encourage the Financial Incentives to be introduced for Deep-Sea Fishing in Sri Lanka

By

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Introduction

I express my gratitude to the organizers of the Symposium for requesting me to read a paper at this Symposium. I intend to make this presentation as brief as possible as time is always a constraint to any professional manager.

It is my intention to confine this paper to financial aspects and undoubtedly the most important factors for investment appraisal for a new project would be the tax incentive and the anticipated profitability.

1. Tax Incentives

To begin with, let us consider a business organisation earning high profits and their liability to income tax on profits at 60%. The financial advisors of this business organisation would look at an angle for capital investment in order to minimise their tax liability. Primarily, he will not consider the anticipated profitability of the new project, but on the tax saving by capital investment on already earned profits out of his existing business. His investment appraisal on the tax incentives for investments would be based on the following :—

- (a) The percentage of Lump-sum Depreciation Allowance.
- (b) The percentage of Development Rebate, if any.

I reproduce below my understanding on the actual cost and the tax benefits on the purchase of a 38' class fibreglass fishing vessel under the Sri Lanka Fisheries Project :

				<i>Rs.</i>
Cost of Hull and Engine				660,000
Less : 35% Subsidy				230,000
				430,000
Add : Cost of Fishing Gear				137,000
				567,000
		Actual Cost ..		
<i>Capital Allowance</i>	<i>Lump-sum Depreciation</i>	<i>Development Rebate</i>		
Hull and Engine 66.23%	287,000	40%	172,000	
Fishing Gear 80%	110,000	40%	55,000	
	397,000		227,000	
				624,000
				Tax Saving at 60% of Rs. 624,000
				374,000

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However, the following are the drawbacks to the said tax incentive :

- (1) The percentage applicable for lump-sum depreciation (LSD) allowance in respect of hull and engine, and fishing gear is not specific in the publications of the Department of Inland Revenue. Therefore the percentage applicable on a claim for L.S.D. is subject to a doubt in the mind of an investor.
- (2) Deep sea and off-shore fishing is not specified to be approved projects as per the circulars of the Department of Inland Revenue. Therefore the enhanced development rebate entitlement is also subjected to a doubt.

Tax Incentive offered to Tourist Hotels

A very effective scheme of tax incentives was offered for the construction and running of tourist hotels which is summarised below :—

<i>Section of Inland Revenue Ordinance</i>	<i>Nature of Incentive</i>
6 (2) (V)	Tax Holiday on profits for a period of 5 years is granted to undertakings which are operating hotels for tourists, on the recommendation of the Ceylon Tourist Board approved by the Minister by Order published in the Gazette.
6 (2) (VI)	Tax Holiday on profits and income for a period of 5 years is granted to undertakings which would provide buildings for the use of Approved Tourist Hotels, as mentioned above.
16 CC (4) and 68A (2)	Investment Relief is granted to persons investing in approved undertakings as follows :— (a) The actual amount of the investment. (b) 1/5th of Assessable Income of the person. (c) Rs. 200,000 (whichever amount is the lower).

The above incentives encouraged the private sector to invest in the construction and operation of tourist hotels. I suggest that the same incentives be offered to the fishing industry as well, so as to obtain their participation in this industry.

Fishing Operation

The investor who purchased the vessel would commence fishing operations as a new business venture. He might perhaps incorporate a separate company to carry out this operation. He will be encouraged only if tax incentives are offered to his infant industry. He will expect a tax holiday for a reasonable period so as to make his new venture a success.

It is an accepted fact that a tax holiday is absolutely essential to make an infant industry a success, and which, in my opinion is a very effective tax incentive.

He will have to sell shares in the newly incorporated company to acquire capital to commence operations. The subscribers to the shares will be encouraged to invest, only if tax incentives are offered to them in the form of investment relief.

Therefore if the Industry is an approved one, the company could claim it to be classified as an approved undertaking and qualify for investment relief under section 16 C.C. of the Inland Revenue Ordinance. Therefore the shareholders of the approved undertaking will enjoy the investment relief as a tax incentive.

Hiring of Fishing Vessels

Certain investors may purchase vessels not with the intention of entering the fishing industry but with a view to gaining tax benefits, and they will be interested only in hiring these vessels. Another category of investors who are specialised in the fishing industry and who are unable to afford the purchase of a fishing vessel, will consider hiring it. An incentive that could be offered to the Owners could be a tax holiday on the hire income like in the case of tourist hotels as per section 6 (2) (VI) of the Inland Revenue Ordinance.

Publicity Factor

The incentives to be granted to the fishing industry should be given wide publicity and the reliefs available to the investor/operator should be well defined by the authorities concerned and their claims honoured without dispute.

2. Profitability

A forecast of the fishing operation profitability should reveal encouraging results. The catch improving devices such as fish finders, radio direction finder etc., would increase the income. Availability of spares, fishing gear, refrigeration etc., will reduce the loss of fishing days.

Insurance Coverage

A well defined insurance scheme should be available and the premium payable should also be based on a reasonable basis. At present the insurance premium for a 38' vessel amounts to approximately Rs. 15,000 per annum, which does not cover partial loss but only total loss, and also does not cover the monsoon period when insurance cover is most required. The premium is doubled to Rs. 30,000 by the Insurance Corporation, if cover is to be granted during the monsoon period as well. The corporation at present apparently no prepared to insure against partial loss. It will be a discouraging factor to a prospective investor to be faced with a poorly defined insurance cover and a high insurance premium.

Trained Personnel

I am of the opinion that at present there is a dearth of well trained personnel in the fishing industry. The " Fish Catch " depends to a great extent on the training and capabilities of the fishing personnel. Therefore, it is suggested that the training programme be more practically oriented with a longer period of sea training so that the well trained personnel could be offered attractive terms of employment and the profitability enhanced by an increased catch.

Conclusion

It is thus seen that tax incentives which were introduced to encourage investment in the tourist industry should also be introduced to encourage investment in the fishing industry as well on the lines discussed earlier. It is essential that wide publicity be given for the incentives introduced so as to achieve the desired results.

DISCUSSION

- Mr. Mather Said that the following incentives are available. 100% Lump-sum depreciation to individuals and companies including replacements, 5-year tax holiday to companies only. These are available for deep-sea and off-shore fishing only.
- Mr. Nizar Requested that these facilities be extended to allied industries such as fish processing, boat yards, etc.
- Chairman Said that all these cannot be taken once and will have to be taken step by step.
- A participant asked whether insurance covered the cost of vessel and crew.
- Mr. Sunil Perera Only the cost of vessel.
- Col. Mathyz Asked that why Mr. Perera could not purchase any fish finders if he was making profits.
- Chairman The Ministry of Fisheries is making arrangements to get sanction to get down fish finders.