

Project 1.

URBAN DEVELOPMENT AUTHORITY TAX INCENTIVES  
FOR URBAN DEVELOPMENT AUTHORITY SPONSORED  
PROJECTS INCLUDING HOTELS

1. Tax Holidays : (available only to quoted public companies)
  - a. Ten year tax holiday on project.
  - b. Ten year tax holiday on dividends.
2. Investment Relief for Investors :
  - a. Investment relief on 100% of investment in equity capital on project costing Rs. 500.0 million and over.
  - b. Investment relief on 33 1/3% of investment in equity capital on projects costing under 500.0 millions.
3. Municipal Taxes:
  - a. Exemption of eighty percent of the Municipal rates during the first five years and fifty percent during the next years.
  - b. No exemption from charges for water and garbage collection and disposal.
4. Expatriates:
  - a. Expatriate personnel will pay Income Tax during their first three years at the concessionary rate of twenty-five percent on their full emoluments arising from their employment in Sri Lanka.



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- b. Expatriate personnel deployed on construction work will not be required to pay customs duty on bona fide personal and household effects brought into Sri Lanka for their personal use at the time of their first arrival in Sri Lanka.

5. Capital Gains Tax:

Proceeds of sale of buildings and/or condominium rents will be subject to capital gains tax.

6. Infrastructure facilities:

All infrastructure facilities such as telephones, electricity, water supply, sewerage, would be connected



to the project site during and after the construction period on payment at the full then prevailing industrial/commercial rates.

7. General Conditions:

- a. The development should be carried out by a separate company floated for the purpose which should become a quoted public company within two years of its registration.
- b. Foreign investors would be guaranteed repatriation of capital and profits.

Finance Division,  
Urban Development Authority,  
27, D.R.Wijewardena Mawatha,  
Colombo 10.

8th May 1980.

ESTIMATION OF TAX REDUCTION FOR BANK OF CEYLON

Net income - interest payable	=	X
Net income after interest	=	X
Less depreciation allowance	=	$\frac{Y}{(X-Y)}$
40% of (X - Y) will be tax	=	$(X-Y) \times \frac{40}{100}$

Depreciation Allowance:



5% for buildings  
10% for machinery  
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This amount could be deducted from the taxable income.

OVERSEAS TRUST BANK

- (1) Floor area per floor is 19048 sq. ft.  
Total is 400,000 sq. ft.
- (2) Basement does not give any income.
- (3) Altogether 21 floors (with the basement).
- (4) Rentable floor area is 80% of the total floor  
(15238 sq. ft. per floor).
- (5) The construction period is assumed to be three years.
- (6) Rents estimated for end of 1983.

<u>Use</u>	<u>Floor</u>	<u>Rent per sq.ft.</u>
Commercial Bank	G.F.	27
Commercial Service Bank	1st.	25
Commercial Service	2nd.	22
Shops	3rd	22
Commercial Offices	4th	20
	5th	20
	6th	20
	7th	20
	8th	20
	9th	20
	10th	20
	11th	20
	12th	20
	13th	20
	14th	20
	15th	20
	16th	18
	17th	18
	18th	20
Restaurant	19th	23

- (7) Above rental values are assumed to be revised by  
10% in every three year period.

OVERSEAS BANK BUILDING

(1) Tax Quantification

Net income before tax (after interest for capital)	=	X
Reduce 5% depreciation allowance	=	$\frac{Y}{(X-Y)}$
50% for residence company	=	(X-Y) 50%
Total Cost of buildings	=	Rs. 260
5% of depreciation	=	Rs. 13
Depreciation allowance	=	Rs. 13



HOTEL HILTON - 750 ROOMS PROJECT - COLOMBO.Income Projection

With the aid of income patterns of an existing five star hotel following income levels have been projected for Hotel Hilton. The present income pattern of an existing five star hotel, which has a similar location has been given below in order to comprehend the basis on which the future income has been worked out.



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Income Pattern - A five star Hotel - Colombo City Centre  
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Item	Percentage of Income	Present Income Rs. Million	Rate of Profit	Amount of Profit Rs. Million
Rooms <sup>1</sup>	52%	99	85%	84
Restaurant	37%	70	40%	28
Other	11%	21	37%	8
Total	100	190		120

Total profit = 120 M.

Profit per room =  $\frac{120}{376}$  = Rs.316,149 per annum

(This income projection was used for Hotel Galadary too).

Foot note

1. Average room rate of Rs. 900 is taken
2. No. of rooms are 376.
3. Profit rates are taken from respective hotel
4. Incomes other than the rooms are based on the rooms income
5. Future occupancy ratio is to be assumed as 80%
6. Present room rents - Single room Rs. 725  
- Double room Rs. 864  
- Suits Rs. 1728

It was assumed that this rate of income will increase at 15% per three year period. For the purpose of Hotel Hilton the following income pattern has been worked out assuming that the Hotel will start earning by the end of 1983:- (Three years after the commencement of construction)

Annual profit per room in 1980 Rs.	Annual profit per room in 1983 Rs.	No. of rooms completed in 1983	Total income by end of 1984 Rs.
319,149	367,021	460	165 million



This profit will be increased by 15% in every 3 year period.

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HOTEL HILTON

## (1) Cost - Construction and other capital cost

1st stage 450 Rs. = 675 (450 x 1.5 m.)

2nd. stage 300 Rs. = 480 (300 x 1.6 m.)

Total cost = 1,155


Cost per room for the first stage = 1.5 m.

Cost per room for the second stage = 1.6 m.

## (2) Gross profit per room per annum in 1984 is Rs. 367,021

Income per annum from first stage = 367,021 x 450 = Rs. 165

Income per annum from second stage = 422,074 x 300 = Rs. 127

First Stage(3) Interest for first 3 year construction cost

 End of 1st year for Rs. 276 m. at 15% interest = 32.4 (without land cost)

End of 2nd year for Rs. 432 m. at 15% interest = 64.4

End of 3rd year for Rs. 729 m. at 15% interest = 109.0End of 3rd year payable interest = 205.4(4). 2nd. StageInterest for 2nd. stage 3 year construction period -

End of 1st year for 162 m. at 15% interest = 24.3

End of 2nd year for 324 m. at 15% interest = 48.6

End of 3rd year for 518 m. at 15% interest = 77.6End of third year payable interest = 149 m.



HOTEL HILTONRates ComputationRates per room in the first five year

Annual value per room	=	20,000
30% rates	=	6,000
20% for first five year	=	1,200
2nd five years period	=	3,000
After ten years	=	6,000
Add 10% increase	=	600
From 10 year onward rate per room=		6,600

Taxation

(1) Net income (after interest)	X
Less depreciation at 5%	Y
	<u>Y</u>
	(X - Y)



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25% of net income (25% reduction is due to  
Qualifying payments (over 500 m.) investment.

Repayment of loan instalment

Amount of Loan	Rs. 924,000
	841,000
Total amount to be paid	1,765
Year purhes for 15 year at 15%	5.84
Annual instalment to repay	
1924 m. at 15% over a 15 year period	159,310
Capital payment	19,117
Interest	140,193

HOTEL GALADARIGross profit estimation

Annual profit per room in 1980	=	319,149
Annual profit per room in 1983	=	367,021
Gross profit for 500 room	=	(367,021 x 500)
	=	183,510

(2) This profit will increase at 15% for a period of three years.

(3) Services 5% of room income.

Income per room	=	Rs.263,000 per year
Income 500 rooms	=	Rs.131 million per year
5% of Rs.131 million	=	6.5

This amount will increase at 15% for a three year period

(4) Rates per room

Annual value per room in 1983	=	Rs. 20,000
30% of rates	=	Rs. 6,000
20% of rates in first 5 year	=	Rs. 1,200
Rate for 1st five years	=	1200 x 500 = <u>600,000</u>
2nd. Five years	=	1200 x $\frac{50}{100} + \frac{10}{100}$
For 500 rooms	=	3300 x 500
For 500 rooms	=	<u>1,650,000</u>
After 10 years	=	6600 x 10% = 7260
Total	=	7260 x 500
	=	<u>3,630</u>

COST OF INFRASTRUCTURE OF ECHELON SQUARE

Cost of new roads, sewerage, drainage and electricity	=	Rs.	30 M.
Fly Over - Rs. 25 M. out of only half	=	Rs.	<u>13 M.</u>
Total Cost	=	Rs.	<u>43 M.</u>

Share of infrastructure cost to each project

Bank of Ceylon	=	Rs.	13.0 M.
Overseas Bank	=	Rs.	10.0 M.
Hotel Hilton	=	Rs.	10.0 M.
Hotel Galadari	=	Rs.	<u>10.0 M.</u>
		Rs.	<u>43.0 M.</u>


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 (Source : [www.eklib.mrt.ac.lk](http://www.eklib.mrt.ac.lk) Engineering Division, U.D.A.)

Relocation cost of existing buildings

Due to obsalate state of buildings and administration advantages of new locations of the present activities, relocation cost is supposed to be at a very low range.

Cost of Police buildings	=	Rs.	5 million
National Savings Bank	=	Rs.	5 million
Army Barrack building	=	Rs.	5 million
District Court building	=	Rs.	5 million
Tourist C Police building	=	Rs.	5 million
Parliament Office building	=	Rs.	5 million
Emigration and Immigration building	=	Rs.	<u>5 million</u>
Total	=	Rs.	<u><u>35 million</u></u>

The total cost of Rs. 25 million was decided by an arbitrary estimation due to non availability of correct information. This amount was taken after adjusting the material values and demolition cost.

Total relocation cost = Rs. 35 million

Share of cost for each project

Bank of Ceylon = Rs. 10 million

Overseas Bank = Rs. 5 million


Hotel Galadari = Rs. 8 million

Hotel Hilton = Rs. 12 million

Rs. 35 million



AN ESTIMATION OF CHARGEABLE RENTS

Projected Description	10 Storeys	15 Storeys	20 Storeys
Land Area	320 p.	320 p.	320 p.
Building floor area	400,000 sq.ft.	400,000 sq.ft.	400,000 sq.
Cost of Land - Rs.15,000/- per perch	48,000,000	48,000,000	48,000,000
<u>Cost of Building</u>			
Construction cost (Rs. 600, 650, 675 per sq. ft. respectively)	240,000,000	260,000,000	270,000,000
* Developers Profit (25% of the construction cost)	60,000,000	65,000,000	67,500,000
* Professional fees (8% of construction cost)	19,200,000	20,800,000	21,600,000
* Other expenditure	19,000,000	21,000,000	21,700,000
 Total Cost	386,000,000	414,800,000	428,800,000
(Years purchases at 20% over a period of 50 years) Annuity	77,527,164	83,311,570	86,123,440
Operational cost:			
Maintenance 10% income	6,240,000	9,000,000	13,500,000
Rates 30% Rent	19,936,000	9,936,000	9,936,000
Insurance $\frac{1}{4}$ % of Buildings	24,000,000	48,000,000	27,000,000
	185,760,000	23,136,000	26,136,000
(Annuity - Opera- tional cost)	96,103,164	106,447,574	114,959,440
Required rent per annum	96,103,164	106,447,574	114,959,440
Required rent per month	8,008,597	8,870,631	19,579,953
Required rent per sq.ft.	Rs.25	Rs.28	Rs.30

BUILDINGS UNDER CONSTRUCTION AND PROPOSEDFORT & PETTAH

	<u>Rooms</u>	<u>Sq. ft.</u>
1. Sheriton Hotel/TCI	500	350,000 + 120,000
2. Taj Hotel	500	400,000 + 200,000
3. Hilton Hotel	500	350,000 + 120,000
4. Orchard Hotel	500	350,000 + 120,000
5. Bank of Ceylon		360,000 -
6. Overseas Bank		1,200,000 -
7. Galladari	500	350,000 + 120,000
8. People's Bank (RGO Site)		160,000 -
9. Hotel Office Building - Hotel	300	475,000 -
(Employment Exchange Site)- Office		475,000
10. Lake House		Indefinite
11. Holiday Inn expansion	105	70,000 -
12. Office Building		260,000 -
13. Cargo Despatch Corporation, Queen's Street		80,000 -
14. Husband & Co., Queen's Street		80,000 -
15. Hotel Corporation		150,000 -
16. Grindlay's Block		500,000 -
17. Gas Company, Pettah		
18. Garages		
Railroad station	300 cars	
Pettah location is indefinite	800 cars	
Lotus Centre	800 cars	
Canal Street Block)	100 cars	120,000
) Shops)	-	70,000

	<u>Rooms</u>	<u>Sq. ft.</u>
19. Bristol Buildings - Shops )		250,000 -
) Offices )		20,000
20. Central Bank		200,000
21. St.John's Fish Market		194,550
22. Kachcheri Market		460,480
23. Beira Lake Park		3 Ac.
24. Fire Brigade Site - Office )		100,000
) Shops )		
25. Ministry of Education - Hotel )	200	140,000
) - shopping )		100,000
26. Dutch Hospital - Shopping		33,000
27. Lotus Centre - Shopping		1,070,000
28.a. Lokis West - Postal Square		300,000
28.b. Lokis West - Office Building		150,000
29. Intercontinental expansion	200	140,000
30. Commercial Bank		150,000
31. National Lottery Board		207,000
32. Hindu Cultural Centre		100,000
33. Don Carolis Expansion		80,000
34. Supreme Court Complex		700,000
35. Union Building		100,000
36. Police Head Quarters Building		80,000

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Total Space	11,056,000 Sqft.
Total Hotel Rooms	3,305
Apartments	120
Cars	2,300

Source : U.D.A.

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