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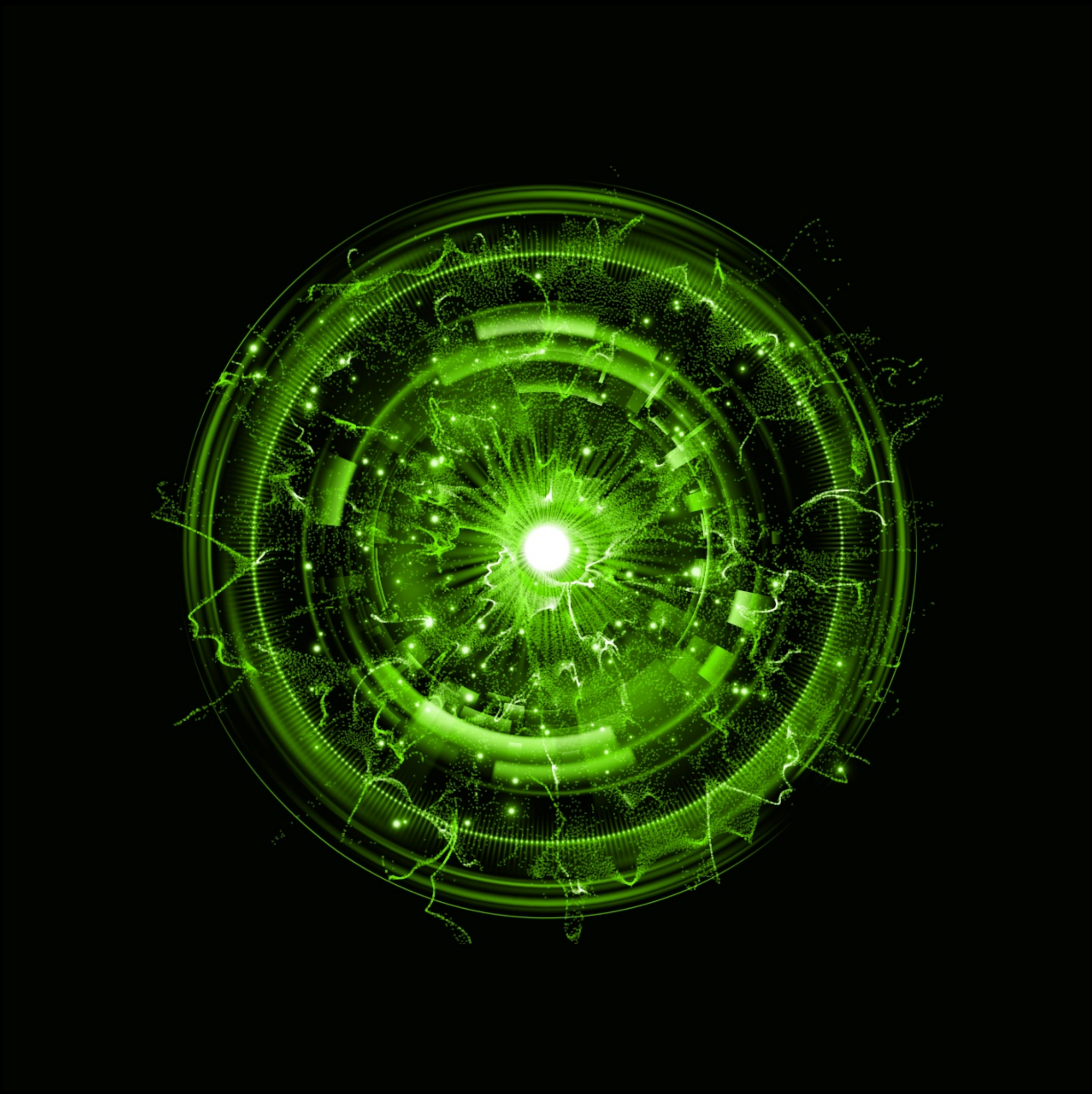

Budget highlights 2021

17 November 2020

Deloitte.

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17 November 2020

Dear Client

Budget proposals, 2021

The Hon. Mahinda Rajapakse, the Prime Minister and Minister of Finance presented the 75th Budget of the Democratic Socialist Republic of Sri Lanka in Parliament today, focusing on strengthening the 2021–2023 medium-term programme of poverty alleviation and economic revival as envisaged within the “Vistas of Prosperity and Splendour,” the policy framework of the government of HE the President Gotabaya Rajapakse.

A consistent tax policy is envisaged for the next five years to revive the economy and support several businesses. The simplified tax policies introduced with effect from 1 January 2020 is expected to continue to better facilitate tax payers and make tax administration more efficient.

With several proposals aimed at developing domestic industries, the government aims to achieve a growth of 5.5 percent in 2021, maintain the budget gap at 9 percent of GDP, and reduce the budget deficit to 4 percent by 2025.

This memorandum has been prepared as a general guide, exclusively for the information of our clients and staff.

These proposals may be subject to alteration during the passage of the legislation through parliament. Therefore, conclusions and decisions should be made only after due consideration and consultation. For additional information and guidance on the proposed changes, the Tax and Business Advisory service of SJMS Associates will be pleased to assist you.

Yours faithfully,

SJMS Associates.

SJMS Associates
Chartered Accountants

Index

Direct Tax

- Income Tax
- Withholding Tax (WHT)

Income Tax

Proposed Exemptions

1) Individuals and companies engaged in farming, including agriculture, fisheries, and livestock farming will be exempted from taxes in the next five years.

2) Earnings from both domestic and foreign sources by those engaged in businesses of information technology and enabling services and also their earnings when made while being resident or non-resident will also be exempted from income taxes.

3) Interest earned from investing in government securities by Samurdhi beneficiaries (Samurdhi Life Savings Account-SLSA) to be exempted from taxes.

4) To encourage savings, exempt the interest income of welfare societies and institutions from income taxes.

5) To promote the Colombo and Hambanthota ports as commodity trading hubs in international trading, and encourage investments in bonded warehouses and warehouses related to offshore business, it is proposed to exempt such investments from all taxes.

6) A five-year tax holiday will be given to private-sector institutions, which will be standardised under one TVET concept on their income, provided the student intake is doubled.

7) A five-year tax exemption will be given to start-up businesses and a 0.25 percent commitment fee will be charged for follow up and extension of services.

8) A five-year tax concession will be made available from 1 January 2021 to domestic industrialists engaged in constructing and installing communication towers using local labour and products.

9) It is proposed to provide incentives through the Board of Investment for implementation of both off-shore wind and floating solar power plants exceeding 100 MW. It is further proposed to allow a tax holiday of seven years for all renewable energy projects.

10) A ten-year tax holiday is proposed to be given for investments in selected recycling sites to encourage recycling and reuse of material from constitution.

11) All aircraft-related payments, software licenses, and other overseas payments made by SriLankan Airlines is exempt with effect from 1 April 2018

Dividends

1) To promote investments in the housing market through Sri Lanka Real Estate Investment Trusts (SLREIT) regulated by the Securities and Exchange Commission, it is proposed to exempt the dividends earned from such investments.

2) It is proposed to exempt the tax on dividends of foreign companies for three years if such dividends are reinvested in the expansion of their businesses or in the money or stock market or in Sri Lanka International sovereign bonds.

3) To encourage the exports of multi-national companies that are import-based for requirements of the domestic market, it is proposed to reduce the tax imposed on their dividends by 25 percent in 2021 and 50 percent in 2023 under the condition that they increase their exports by 30 percent and 50 percent in the respective years.

4) To exempt dividends distributed by commercial hub enterprises with effect from 1 January 2020

Interest

On instances where commercial banks in Sri Lanka purchase Sri Lanka International Sovereign Bonds, subject to a minimum of US$100 million, it is proposed to suspend risk-weighted provisioning under the Central Bank regulations for three years and exempt the interest income of this investment from taxes.

Proposed concessions

1. It is proposed to issue relevant instructions under the Inland Revenue Act to ensure better and transparent management with regard to the provisions for anticipated losses of loans and doubtful loans in calculating taxes of banks and financial institutions.

2. To promote the listing of local companies on the Colombo Stock Exchange (CSE), it is proposed to provide a 50 percent tax concession for the Y/A 2020/2021 for such companies that are listed before 31 December 2021 and maintain a corporate income tax rate of 14 percent for a period of three years subsequent to that.

3. Investments exceeding US$10 million, with the potential to change the landscape of the economy, in areas of export industries, dairy, fabric, tourism, agricultural products, processing, and information technology, will be provided with concessions up to a maximum of 10 years under the Strategic Development Act.

4. Strategic investment tax concessions for a period of five years for capital investments above US$25 million for companies engaged in producing milk powder for exports.

5. Loans of upto LKR500,000 will be provided at an interest rate of 4 percent as start-up capital to support entrepreneurs who start their own businesses on the successful completion of vocational education.

The cost of funds provided for such start-up capital, provided by banks and finance agencies will be a deductible expenditure in the calculation of taxes.

6. To grant a deduction on the expenditure on research and development expenses of local entrepreneurs involved with the Institute of Nanotechnology in the development of untapped industries such as mineral sand, phosphate, fertiliser, and graphite as export industries with high value.

7. Provide investment incentives and promote rubber- and coconut-related industries, building materials and office equipment, and furniture as major industries. It is also proposed to provide incentives for investments on household needs as well as coconut-related industries including brooms, ekel brooms, rugs, and rubber-related products including agricultural and consumer needs, building materials, office furniture, to support them as main industries.

8. It is proposed to grant a tax break of seven years for local boat and shipbuilding.

9. Depreciation over two years for capital investments on;

   - Latest technology to collect liquid milk from local dairy farmers
   - Enhancement to milk-related production
   - Promotion of liquid milk.

10. It is proposed to consider the investment expenditure in acquisitions (merging finance companies functioning under commercial banks with the banks) as deductible expenditure.

11. Related expenditure of local entrepreneurs who contribute to establish shops under the Network of Samurdhi Women's shops will be considered as deductible expenditure in the calculation of their personal income tax.

Administrative provisions

- It will be mandatory for all companies to use an "E-filing" system to file their taxes with effect from 1 April 2021, and the use of the Tax Identification Number (TIN) in all tax and tax-related transactions.

- It is proposed to strengthen the legal provisions relating to the establishment of specific time frames for the implementation of rulings and settlement of appeals submitted against the tax administrative decisions made under the Inland Revenue Act. It is also proposed to establish a special tax appeals court to resolve tax appeals and introduce a simple system to reconcile tax liabilities through a final income statement at the year end.

- It is proposed to introduce the required changes to the Department of Inland Revenue to facilitate enhanced self-compliance and strengthen tax audits in ensuring increased tax revenue in the background of the simplified tax regime.

- It is proposed to introduce punitive legal provisions for private tax consultants and auditors representing the tax payers, who prepare and certify fraudulent tax reports, aids and abets the tax payers in such action will be faced with such consequence including being barred from practicing.

Income tax (Amendments to Inland Revenue Act, No. 24 of 2017)

Proposed exemptions being applied administratively by the Department of Inland Revenue

		Effective date
a)	Interest accruing to or derived by any person outside Sri Lanka, on any loan granted to any person in Sri Lanka or to the government of Sri Lanka	1 April 2018
b)	Interest income earned by any person on foreign currency accounts opened in any commercial or specialised bank in Sri Lanka, with the approval of the Central Bank of Sri Lanka	1 January 2020
c)	Funds received by any public corporation out of the funds voted by the parliament from the consolidated fund, or out of any loan arranged through the government	1 April 2018
d)	Any income (i.e., interest, discount, or realisation of any gain) earned by a non-resident (other than a permanent establishment) on any sovereign bond denominated in foreign or local currency	1 April 2018
e)	Interest or discount paid or allowed to any person on sovereign bond denominated in foreign currency (including Sri Lanka Development Bonds)	1 April 2018
f)	A dividend paid by a resident company to a member to the extent that dividend payment is attributable to, or derived from, another dividend received by that resident company or another resident company	1 January 2020
g)	Dividend paid by a resident company engaged in any one or more of the following businesses, in line with PART IV of the Finance Act No. 12 of 2012 and within the meaning of an agreement entered into with the Board of Investment of Sri Lanka (established under the Board of Investment of Sri Lanka Law, No. 4 of 1978) will be exempt in the hands of the recipient. (i) Entrepot trade involving import, minor processing, and re-export (ii) Offshore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing them into Sri Lanka (iii) Providing front-end services to clients abroad (iv) Headquarter operations of leading buyers for management of financial supply-chain and billing operations	1 January 2020

	Logistical services, such as bonded warehouse or multi-country consolidation in Sri Lanka.	
h)	Dividends from and gains on the realisation of shares in a non-resident company, derived by any person with respect to substantial participation* in the non-resident company. * "Substantial participation" is defined in paragraph (r) of the third schedule to the IR Act as below. i. Holding 10% or more of the value of shares in the company, excluding redeemable shares; together with Control, either directly or indirectly, of 10% or more of the voting power in the company.	1 January 2020
i)	Gains and profits earned or derived by any person from the sale of produce of an undertaking for agro farming without subjecting such produce to any process of production or manufacture	1 April 2019
j)	Gains and profits earned or derived by any person from IT and enabled services as may be prescribed	1 January 2020
k)	Gains and profits earned or derived by any person from: services rendered in or outside Sri Lanka, to any person, and used outside Sri Lanka, where the payment for such services is received in foreign currency and remitted through a bank to Sri Lanka Any other foreign source where such gains and profits are earned or derived in foreign currency and remitted through a bank to Sri Lanka.	1 January 2020
l)	Grants and donations received by religious institutions registered with the relevant ministry.	1 January 2020

Qualifying payments and new reliefs

Qualifying payments	Effective date
Personal relief of LKR3 million per annum for resident individuals and non-residents who are citizens	1 January 2020
Payments made to the consolidated fund by any public corporation	1 April 2019

New relief	Effective date
Permitted deductions in calculating personal income tax (subject to a maximum of LKR1.2 million per annum) include the following: • Health expenditure, including contributions to medical insurance	1 January 2020

• Education expenditure incurred locally for such individuals or on behalf of their children • Payment of interest on housing loans • Contribution to an approved pension scheme • Expenditure incurred for the purchase of equity or security	

Revision of income tax rates

a) Individuals

Personal income tax: Resident and non-resident* individuals

Taxable income from 1 January 2020 to 31 March 2020	Taxable income from 1 April 2020 (per annum)	Income tax rate
First LKR750,000	Next LKR3 million	6%
Next LKR750,000	Next LKR3 million	12%
Balance	Balance	18%

* In case of non-resident individuals, tax rates apply on the income, which is not subject to final tax for non-residents.

Tax rate of 40 percent applies on businesses engaged in betting and gaming, manufacture and sale, or import and sale of liquor or tobacco products.

b) Companies

Industry	Corporate income tax rate
Standard rate for companies	24%
Small and medium-sized enterprises Export of goods *(where the payment for such sale is received in foreign currency and remitted through a bank to Sri Lanka)* Specified undertaking Educational services Promotion of tourism Construction services Agro processing Health care services Dividends received from a resident company	14%
Manufacturing	18%
Betting and gaming	40%
Manufacture and sale or import and sale of any liquor or tobacco products	40%

c) Partnership

Taxable income	Tax rate
First LKR1 million	0%
Exceeding LKR1 million	6% on the excess of LKR1 million
Gains on realisation of investment assets	10%

Capital gains tax/stamp duty

- To promote investments in the housing market through Sri Lanka Real Estate Investment Trusts (SLREIT) regulated by the Securities and Exchange Commission, it is proposed to exempt such investments from capital gains tax and reduce stamp duty up to 0.75 percent. Currently stamp duty is charged at 4 percent.

- It is proposed to simplify taxes on capital gains, where such taxes will be calculated based on the sale price of a property or the assessed value of a property, whichever is higher.

- On instances when commercial banks in Sri Lanka purchase Sri Lanka International sovereign bonds subject to a minimum of US$100 million, it is proposed to exempt profits on the capital of this investment from taxes.

Withholding Tax (WHT)

Amendments announced previously and currently applied administratively by the Department of Inland Revenue

Removal of WHT

1. WHT on payments to resident persons

WHT is abolished for the following payments to resident persons:

Removal of WHT on interest income for residents

The effect of this amendment will make interest income (for whom it was a final tax earlier) a part of the taxpayer's assessable income.

Removal of WHT on specified fee paid to residents

WHT on service-fee payments to non-residents will continue. However, amounts derived by any non-resident person from laboratory or standards certification services will be exempted.

Removal of WHT on dividends, charge, natural resource payment, rent, royalty, premium, or retirement payments made to residents.*

The effect of this amendment will make dividend income, the tax on which was considered a final tax earlier, a part of the taxpayer's assessable income.

* However, with effect from 1 April 2020, if any of above payments are regular fixed payments (interest, rent, etc.) on the recipient's request, an advance income tax (which can be claimed as tax credit) could be deducted by the Withholding Tax Agent (WHA) at the point of making such payment, per declaration made to the WHA. The DIR is expected to issue a separate guideline in this regard.

Removal of WHT on employment income

Pay As You Earn (PAYE) on payments to resident individuals removed.

Removal of WHT on partners' shares

The taxable income of the partnership exceeding LKR1 million per annum will be subject to the partnership tax at the rate of 6 percent.

2. WHT on payments to non-resident persons

Non-resident persons will be subject to WHT, provided the payments have a source in Sri Lanka.

The WHT rates below will be subject to the provisions of respective double tax avoidance agreement as applicable.

Payment	Rate
Dividends	Exempt
Interest (excluding exempt interest) In case of a Sri Lankan citizen who is a non-resident, WHT will apply only if the aggregate interest income from a bank or financial institution exceeds LKR250,000 per month or LKR3 million per annum.	5%
Land, sea, air transport or telecommunication service	2%
Service fee and insurance premium	14%
Any other payment	14%

Indirect Tax

- Value Added Tax (VAT)
- Nation Building Tax (NBT) and Economic Service Charge (ESC)

Value Added Tax (VAT)

- VAT is exempted for the supply/donation of health protective equipment and similar products by export-oriented Board of Investment (BOI) companies to the Ministry of Health and Indigenous Medical Services, Department of Health Services, Tri Forces, and Sri Lanka Police on their request.

- VAT is exempted on importation, importation and supply, or importation and donation of machinery and equipment including medical, surgical, surgical and dental instruments, apparatus, accessories and parts thereof, hospital/medical furniture and drugs, chemical, and similar items required for the provision of health services to address the COVID-19 pandemic from 20 May 2020 to 31 December 2020.

- VAT rate applicable on the local sale of certain garments by export-oriented Board of Investment of Sri Lanka (BOI) companies has been reduced to LKR25 from LKR100.

  Currently, the supply of garments within the percentage as permitted locally by the BOI under section 17 of the BOI Law.

  VAT rate is LKR100 per garment, other than panties, socks, briefs, and boxer shorts, identified under the Harmonised Commodity Description and Coding System Numbers for custom purposes.

  VAT rate is LKR100 for six pieces of panties, socks, briefs, and boxer shorts, identified under the Harmonised Commodity Description and Coding System Numbers for custom purposes.

- Provisions permitting the treatment of supplies made by suppliers who are not registered for VAT as VAT-inclusive supplies, introduced with respect to wholesale and retail trade have been removed.

  Currently, if a registered person has issued an invoice other than a tax invoice, the value of supply shall be equal to tax inclusive consideration where no tax has been collected.

  If any commodity has been exempted from VAT at its importation point, it is proposed to exempt the domestic production of that particular commodity from VAT as well.

Amendments announced previously and currently applied administratively by the Department of Inland Revenue

- Increase of threshold for the registration for Value Added Tax (VAT), from LKR3 million per quarter or LKR12 million per annum to LKR75 million per quarter or LKR300 million per annum with effect from January 1, 2020.
- Granting permission for the voluntary registration for VAT upon a written request made by any person who carries on or carries out a taxable activity, even if such person is not within the VAT registration threshold.
- Exemption of the sale of condominium housing units from VAT with effect from 1 December 2019.
- Exemption of information technology and enabling services with effect from 1 January 2020.
- Reduction of VAT rate on the import and/or supply of goods or supply of services other than financial services from 15 percent to 8 percent with effect from 1 December 2019.
- Exemption of the supply of services in respect of inbound tours, by a travel agent registered with the Sri Lanka Tourism Development Authority with effect from 1 April 2020.

Nation Building Tax (NBT) and Economic Service Charge (ESC)

It is proposed to allow the settlement of outstanding dues on abolished taxes such ESC and NBT administered by the Department of Inland Revenue through a mechanism that includes a concessionary payment plan based on the payment capacity leading to a full and final settlement resulting in the closure of the those files.

Special Goods and Services Tax

Introduction of an online-managed, single Special Goods and Service Tax in place of various goods and service taxes and levies, imposed under multiple laws and institutions on alcohol, cigarettes, telecommunication, betting and gaming, and vehicles.

Miscellaneous Tax

- Tax relief measures to facilitate post COVID-19 economic recovery
- Customs Import Duty (CID)
- Other

Tax relief measures to facilitate post COVID-19 economic recovery

Income tax

1. Consideration of the income generated from the supply of health protective equipment and similar products by BOI companies on the request of Ministry of Health and Indigenous Medical Services, Department of Health Services, Tri Forces , and Sri Lanka Police as "Deemed Exports" and to consider the said quantities for the calculation of 80 percent export requirement for tax purposes, to become eligible for reduced tax rates. This is contrary to directives given earlier this year where the predominant rule was removed.

2. Waiver of income tax in arrears, payable by SMEs as defined in the Inland Revenue Act, No. 24 of 2017, on the assessments issued up to the year of assessment 2018/2019 by the Commissioner General of Inland Revenue (CGIR), where he is satisfied that there is no fraud or wilful neglect involved in the disclosure of income or any claim for any deduction or relief.

3. The income tax return furnished by SMEs for the year of assessment 2019/2020 is proposed to be accepted and additional assessment not to be issued for that year on tax payers, who furnish income tax returns for the year and pay tax declared in the return.

4. A grace period is proposed to be granted to settle taxes in arrears/default, as agreed with the Legacy Unit, Default Tax Recovery Unit, and the Revenue Administration Management Information System (RAMIS) Unit of the Department of Inland Revenue.

5. The payment or/and submission of returns of any tax administered by the CGIR, which is due for the period from 1 March 2020 to 30 June 2020, is proposed to be treated as paid or/and submitted on the due date if such payment/submission is made on or before 31 December 2020.

Customs duties

- Concessions are proposed to be given on customs duties on cold-room facilities imported for the preservation of fruits and vegetables.
- For purchase of modern equipment for the purpose of value addition to local crops such as pepper, cloves, cardamom, and coffee, which would be suitable for export.
- To impose the Special Commodity Levy (SCL) to balance the supply and demand of domestic production for selected agricultural products.
- To impose CESS to provide the required protection on import and export of domestic production.
- To remove import taxes on raw materials not available in the country, machineries and equipment with modern technology, to boost exports, and also to encourage domestic industries to produce value-added goods.
- To classify all imports other than the above, under three categories of 0, 10, and 15 percent.
- To ban the importation of batik products under national sub headings to develop batik and related fashion as a national industry.
- To reduce import taxes levied on vehicle spare parts required for new production sectors to incentivise entrepreneurs in the automobile industry engaged in vehicle repairing and vehicle assembly.
- To exempt import tax on the import of machinery containing modern technology.
- Certain raw materials such as cement, premix, iron rods, bitumen, which cannot be produced domestically, will be imported in bulk without import duties.

Other

- Contributions to insurance fund
  A new insurance scheme will be introduced to support sections of the public that temporarily lost livelihoods due to quarantine processes related to epidemics including COVID-19. Businesses and factories that operate with more than 50 employees have to contribute 0.25 percent of the turnover to this insurance scheme.

- It is proposed to make necessary amendments to simplify taxes and fees levied by Local government institutions on tourism with an upper cap.

- Retirement age for purposes of Employees' Provident Fund increased to 60 years for both males and females from 55 and 50 years respectively.

Appendices

- Appendix A - Summary of corporate taxes
- Appendix B - Comparison of effective tax rates for resident individuals
- Appendix C - Taxation of terminal benefits (retiring benefits)

Appendix A – Summary of corporate taxes

Y/A 2016/2017 – 2021/2022

	2021/22 %	2020/21 %	2019/20 %		2018/19 %	2017/18 %	2016/17 %
			First 9 months	Last 3 months			
Income tax							
Companies (excluding manufacturers and service providers)							
Taxable income > LKR5 million	24*	24*	28	24*	28	28	28
Taxable income < LKR5 million	24*	24*	28	24*	28	12	12
Any holding company, subsidiary or ass. company taxable income < LKR5 million	24*	24*	28	24*	28	28	28
Manufacturing and service provider companies other than holding/subsidiary or associate companies conducting business since 1 April 2018.							
Small and Medium Enterprises (SME) with turnover							
< LKR750 million from 1 April 2015 < LKR500 million from 1 April 2018	14	14	14	14	14	12	12

	2021/22 %	2020/21 %	2019/20 %		2018/19 %	2017/18 %	2016/17 %
			First 9 months	Last 3 months			
Companies other than SMEs	24*	24*	28	24*	28	28	28
Others							
Provident funds	14	14	14	14	14	10	10
Clubs and associations (Treated as SME from 1 Aprill 2018)	14	14	14	14	14	10	10
Non-governmental organisations	24*	24*	28	24*	28	28	28
Manufacture and sale, or import and sale of tobacco and liquor products. From 1 April 2018 business of liquor tobacco, betting and gaming	40	40	40	40	40	40	40
Concessionary rate							
Locally developed software. From 1 April 2018 IT services	Exempt(1)*	Exempt (1)*	14	Exempt (1)*	14	10	10
Manufacturing	18*	18*	28	18*	28	28	28
Educational services	14	14	14	14	14	10	10
Health care services	14*	14*	28	14*	28	12	12
Qualified export/tourism	14	14	14	14	14	12	12
Construction services	14*	14*	28	14*	28	12	12

	2021/22 %	2020/21 %	2019/20 %		2018/19 %	2017/18 %	2016/17 %
			First 9 months	Last 3 months			
Agricultural undertakings	14(2)*	14(2)*	14(2)*	14(2)*	14	12	12
Venture capital companies	24*	24*	28	24*	28	12	12
Unit trusts	18*	18*	24	18*	24	10	10
Unit trusts treated as resident companies	24*	24*	28	24*	28	-	-
Unit trust management companies	24*	24*	28	24*	28	10	10
Petroleum exploration	24*	24*	28	24*	28	12	12
Exports	14	14	14	14	14	10	10

* This proposed amendment is being administratively applied by the Department of Inland Revenue. A formal amendment to the Inland Revenue Act No. 24 of 2017 is expected to follow in due course.

Note:
1. W.e.f. 1 January 2020, information technology and enabled services, as prescribed.
2. Gains and profits from the sale of produce of an undertaking for agro farming without subjecting such produce to any process of production or manufacture and profits and income earned by any person from farming including agriculture, livestock, and fish farming, is exempt w.e.f. 1 April 2019.

	2021/22 %	2020/21 %	2019/20 %		2018/19 %	2017/18 %	2016/17 %
			First 9 months	Last 3 months			
Dividend Tax	(1)*	(1)*	14	(1)*	14	10	10
Laboratory services or standards certification services	Exempt(2)*	Exempt (2)*	28	Exempt (2)*	28	28	28
Remittance tax for non-resident companies	14	14	14	14	14	10	10
Foreign dividends	Exempt(3)*	Exempt (3)*	Liable (3)	Exempt (3)*	Liable (3)	Exempt	Exempt
Share transaction levy on sale of shares of quoted companies	0.3(4)	0.3(4)	0.3(4)	0.3(4)	0.3(4)	0.3(4)	0.3(4)
Economic Service Charge (ESC) on turnover	-(5)	- (5)	0.5	- (5)	0.5	0.5	0.5
Economic Service Charge (ESC) on export of goods or services	-(5)	- (5)	0.5	- (5)	0.5	0.5	0.5
Partnership	6(6)*	6(6)*	N/A	6(7)*	N/A	8(6)	8(6)

* This proposed amendment is being administratively applied by the Department of Inland Revenue. A formal amendment to the Inland Revenue Act No. 24 of 2017 is expected to follow in due course.

Note:

1. Withholding tax is abolished w.e.f. 1 January 2020. Therefore, dividend income will be liable for Corporate Income tax at the rate of 14 percent. However, if the dividend income was subject to withholding tax previously or if such dividend income is received from a dividend received by another resident company then such dividend income shall be exempted from corporate income tax.

2. Applicable for any non-resident person.

3. Where recipient is a resident company, which holds 10 percent or more shares with 10 percent or more voting power in the non-resident company, will be exempted.
   This exemption has been extended to include dividend received by any person w.e.f. 1 January 2020. Further, w.e.f. 1 January 2020, even if the Sri Lanka resident entity owns less than 10 percent, an exemption (proposed) can be claimed on "any foreign sourced income, where such gains and profits earned or derived in foreign currency and remitted through a bank to Sri Lanka".

4. To be paid by both buyer and seller.

5. ESC is abolished w.e.f. 1 January 2020.

6. Divisible profit in excess of LKR1,000,000.

7. Divisible profit in excess of LKR250,000.

	2021/22 %	2020/21 %	2019/20 %		2018/19 %	2017/18 %	2016/17 %
			First 9 months	Last 3 months			
Withholding tax							
Interest – to resident	-*	-*	05	-*	05	10	10
– To non-resident on loans **	Exempt (A)	Exempt (A)	Exempt (A)	Exempt (A)	Exempt (A)	-	-
Royalty – to resident	-*	-*	14	-*	14	10	10
– To non-resident **	14	14	14	14	14	15	15
Rent – to resident	-*	-*	10	-*	10	N/A	N/A
– To non-residents **	14	14	14	14	14	20	20
Dividends **	-*	-*	14	-*	14	10	10
Technical service fee (including managerial service) – non resident **	14	14	14	14	14	20	20
Reward payments by Government	14	14	14	14	14	10	10
Lottery prizes, winning from betting and gambling	14	14	14	14	14	10	10
Gem and jewellery sale at auction	2.5	2.5	2.5	2.5	2.5	2.5	2.5

*This proposed amendment is being administratively applied by the Department of Inland Revenue. A formal amendment to the Inland Revenue Act No. 24 of 2017

**Subject to DTAA

Note:

A. W.e.f. 1 April 2018, interest accruing or derived from any loan granted to any person in Sri Lanka or to the Government of Sri Lanka is exempt.

	2021/22 %	2020/21 %	2019/20 %		2018/19 %	2017/18 %	2016/17 %
			9 months	3 months			
Capital allowances							
Buildings	5	5	5	5	5	10	10
Plant, machinery, and fixtures	20	20	20	20	20	33 1/3	33 1/3
Computer, data equipment, and software	20	20	20	20	20	25	25
Software (locally developed)	20	20	20	20	20	100	100
Commercial vehicles and office furniture	20	20	20	20	20	20	20
Bridges and railways	20	20	20	20	20	6 2/3	6 2/3
Plant and machinery for businesses exporting more than 60% of total turnover	20	20	20	20	20	50	50
High-tech plant, machinery and equipment for energy efficiency purposes	20	20	20	20	20	100 (1)	100 (1)
Intangible assets	5(2)	5 (2)	5 (2)	5 (2)	5 (2)	10	10

Note:

1) More than 30 percent of the total energy requirement is met through alternative energy resources.
2) From 1 April 2018 for useful lifetime or minimum 5 percent.

	2021/22 %	2020/21 %	2019/20 %	2018/19 %	2017/18 %	2016/17 %
Deduction of losses (restricted)						
Life insurance business	Deductible from business or investment income	Deductible from business or investment income	Deductible from business or investment income	Deductible from business or investment income	Loss restricted to life insurance business profit	Loss restricted to life insurance business profit
Finance leasing business	Deductible from business or investment income	Deductible from business or investment income	Deductible from business or investment income	Deductible from business or investment income	Loss restricted to finance leasing profit	Loss restricted to finance leasing profit
Other business losses	100% from business or investment income	100% from business or Investment income	100% from business or Investment income	100% from business or Investment income	35% of total statutory income	35% of total statutory income
Investment loss	Restricted to investment income	Restricted to investment income	Restricted to investment income	Restricted to investment income	N/A	N/A

	2021/22 %	2020/21 %	2019/20 %		2018/19 %	2017/18 %	2016/17 %
			9 months	3 months			
Value Added Tax (VAT)							
Standard rate	8(A), 15(B)	8(A), 15(B)	15	8(A), 15(B)	15	15	11,15 (A)
Zero rate	0	0	0	0	0	0	0
Nation Building Tax (NBT)							
Standard	-	-	2, (C)	-	2	2	2
Retail and wholesale business	-	-	2% on 50% of turnover , (C)	-	2% on 50% of turnover	2% on 50% of turnover	2% on 50% of turnover
Distributors	-	-	2% on 25% of Turnover , (C)	-	2% on 25% of Turnover	2% on 25% of turnover	2% on 25% of turnover

Note:
(A)

1 January 2015 – 1 May 2016	11%
2 May 2016 – 11 July 2016	15%
12 July 2016 – 31 October 2016	11%
1 November 2016 – 30 November 2019	15%
1 December 2019 to date	8% (Thresholds have been revised w.e.f. 1 January 2020 to LKR75 million per quarter and LKR300 million per annum)

(B) VAT rate on supply of financial services-15%

(C) NBT is abolished w.e.f. 1 December 2019

Appendix B – Comparison of effective tax rates for resident individuals

Y/A 2012/2013 –2021/2022

An employee whose salary is LKR100,000 per month (1)

LKR150,000 per month (2)

LKR500,000 per month (3)

Y/A	Personal allowance/ Employment relief	Taxable income			Income tax			Average effective rate (%)		
		1	2	3	1	2	3	1	2	3
	LKR000	LKR000	LKR000	LKR000	LKR000	LKR000	LKR000			
2012/2013	600	600	1,200	5,400	28	84	976	2.3	4.6	16.2
2013/2014	600	600	1,200	5,400	28	84	976	2.3	4.6	16.2
2014/2015	600	600	1,200	5,400	28	84	976	2.3	4.6	16.2
2015/2016	750	450	1,050	5,250	18	66	720	1.5	3.6	12
2016/2017	750	450	1,050	5,250	18	66	720	1.5	3.6	12
2017/2018	750	450	1,050	5,250	18	66	720	1.5	3.6	12
2018/2019	1,200	-	600	4,800	-	24	792	-	1.3	13.2

Y/A	Personal allowance/ Employment relief	Taxable income			Income tax			Average effective rate (%)		
2019/2020 First 9 months	900	-	450	3,600	-	18	594	-	1.3	13.2
2019/2020 Last 3 months*	750	-	-	750	-	-	45	-	-	3
2020/2021*	3,000	-	-	3,000	-	-	180	-	-	3
2021/2022*	3,000	-	-	3,000	-	-	180	-	-	3

* This proposed amendment is being administratively applied by the Department of Inland Revenue. A formal amendment to the Inland Revenue Act No. 24 of 2017 is expected to follow in due course

Appendix C – Taxation of terminal benefits (retiring benefits)

Terminal benefits include gratuity, commutation of pension, compensation for loss of employment, and ETF withdrawals.

Exemptions

- Retiring benefit from the government
- Provident fund withdrawals after 1 April 2011
- The share of investment income that represents amount received by the Employees Trust Fund (ETF) after 1 April 1987.

Criteria for determination of terminal benefit rate	Applicable rate*
Terminal benefits paid under an uniform scheme	**Concessionary rate:** First LKR 10 million-Exempt Next LKR 10 million-6 percent Balance-12 percent
Compensation for loss of office has not been approved by the Commissioner General	**Standard rate:** Rates applicable for individual income tax. First LKR 3 million-6 percent Next LKR 3 million-12 percent Balance-18 percent

*This proposed amendment is being administratively applied by the Department of Inland Revenue. A formal amendment to the Inland Revenue Act No. 24 of 2017 is expected to follow in due course.

About SJMS

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