



# Understanding Sri Lanka's Tax System

The Club HNB, hosted an exclusive awareness session on the prominent changes of the tax collection regulations of Sri Lanka, on the 12<sup>th</sup> February at the HNB Towers. Azreen Zaheer, CEO of Frontier Advisory (Pvt) Ltd, a collaborative partner of Club HNB, steered the evening with his expertise followed by a Q&A session at the end facilitating a number of sought-after clarifications.

# Trends and perspectives in collecting tax revenues:

## Long term revenue targets

- By 2025 reach a primary surplus over 2.3% of GDP
- By 2032 an advanced economy and developed country
- By 2048 digitally advanced export-oriented economy

## Strategic proposals in improving government revenue:

- Setting up 4 universities and granting university status to some private Institutions
- Bringing in some legislative changes such as amending Inland Revenue Act, Foreign Exchange Act, Banking Act, Excise Ordinance etc.
- Enacting New Investment Law, Public Private Partnership Law, State Owned Enterprise (SOE) Reforms law etc.
- Negotiating and implementing FTAs with Singapore, Thailand and other countries
- Establishment of an International Trade Office to deal with all international trade negotiations
- Establishment of SOE Reform units

## Revenue generation avenues of the government:

- Taxes
- Duties
- Charges
- Income from SOEs

## Tax Identification Number (TIN)

As per the Inland Revenue Act No. 24 of 2017 Section 102,

“With effect from January 01, 2024, any individual who is at the age 18 years or more, or who attains the age of 18 years on or after January 01, 2024, it is mandatory to register with the Inland Revenue Department and obtain a TIN (Taxpayer Identification Number).

### Tax proposal highlights:

Mandatory tax files for those who

- A) Open bank accounts
- B) Obtain building plan approvals
- C) Register properties
- D) Register motor vehicles

## TAXABLE PERSON



## INDIVIDUAL LIABILITY



Income tax relief threshold – LKR 1,200,000/- per annum

## Personal Tax

- Personal Income tax
- Terminal benefits; approved by CGIR or not
- Non-cash benefits: residence, vehicle etc
- Secondary employment tax

## Withdrawal of other exemptions

- Dividend paid by a resident company to a member who is a non-resident.
- Gains from realization of land or building which was sold, exchanged or transferred to a Real Estate Investment Trust (REIT)
- Dividend and gains on the realization of units or amounts derived as gains from the realization of capital assets of a business or investment by a unit holder, from REITs
- Gains and profits derived from providing information technology and enabled services. (1<sup>st</sup> April 2023)
- Any vocational education programmes of any Vocational Education Institution
- Any business of export of gold, gems or jewellery or from the business of cutting and polishing of gems which are brought to Sri Lanka and exported after cutting and polishing, where such gains and profits earned in foreign currency are remitted through a bank to Sri Lanka

## Exemptions still applicable on

Any service rendered in or outside Sri Lanka to any person to be utilized outside Sri Lanka, where the payment for such services is received in foreign currency and remitted through a bank to Sri Lanka.

Any foreign source where such gains and profits are earned or derived in foreign currency and remitted through a bank to Sri Lanka.

Other income tax exemptions that were not specifically withdrawn by this Act

## Advanced Personal Income Tax (APIT)

APIT on employment income is now mandatory on all employees w.e.f 1<sup>st</sup> January 2023

A person with only Employment Income which is subjected to APIT deduction is not required to file tax returns w.e.f. 1<sup>st</sup> January 2023.

## Corporate Income Tax (CIT)

20/24 à 30%

## Capital Gains Tax (CGT)

Wef 1<sup>st</sup> Oct 2022; 10%-->30%

## Advanced Income Tax (AIT)

Mandatory for:

Interest, dividends, Discount, Charge, Rent, Royalty etc

## Withholding Tax on Service payments

Payment of service fee or an insurance premium with a source in Sri Lanka to a non-resident – withholding at the rate of 14% (final tax)

## Foreign Payments

WHT of 15% will be applicable to all payments except for ones that are subject to DTA provisions

## WHT on service payments:

Withholding at the rate of 5% on the full payment for the given basket of service when exceeding LKR 100,000/- a month

## VAT

VAT rate revisions:

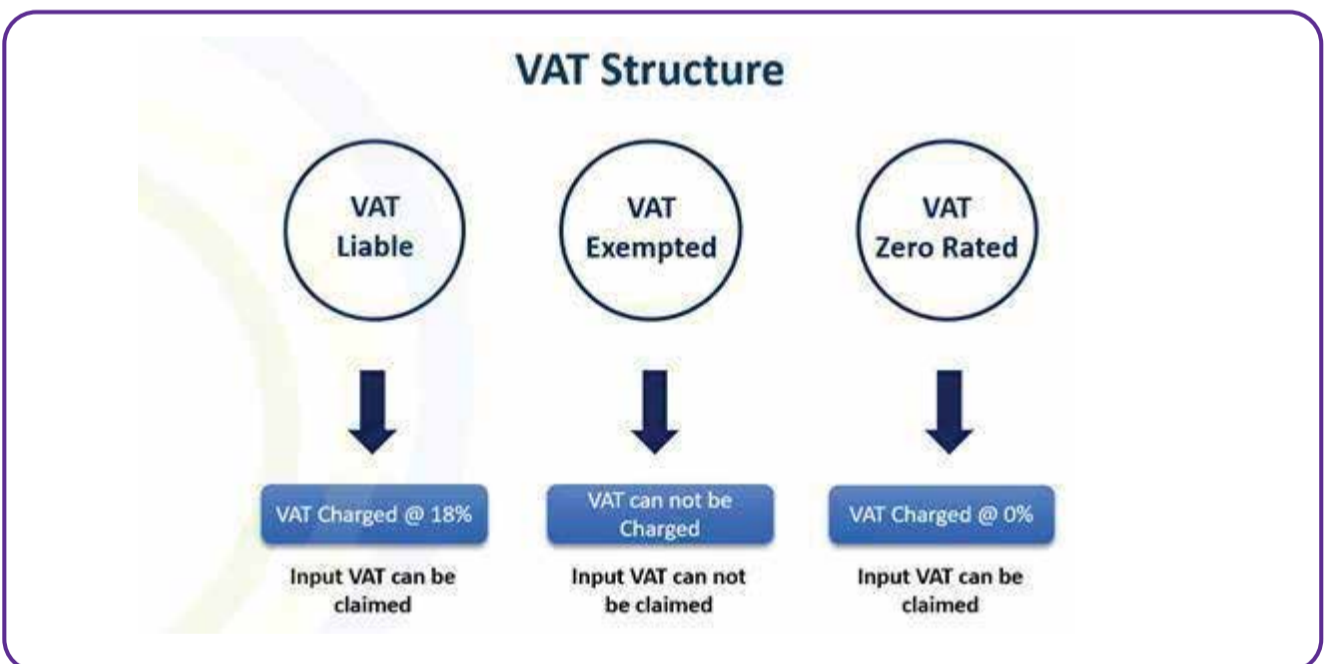


## VAT threshold revision



## Simplified VAT (SVAT)

The government has proposed to eliminate the SVAT scheme w.e.f 1<sup>st</sup> April 2025



## Social Security Contribution Levy (SSCL)



In the pipeline:

- Wealth tax
- Inheritance tax

# Event Gallery

