

## ***Sri Lanka Budget 2016 Summary***

### ***Personal Income Tax***

#### ***Changes to the tax system***

- Single standard tax rate of 15% to apply.
- Graduated tax rates to be removed.
- Threshold increased to Rs. 2.4 million per annum. (i.e 200,00 per month)
- Employees who are employed under more than one employer chargeable at the standard rate of 15% on their total employment sourced income.
- Partnership taxation to be adjusted to reflect the simplification of income tax system.

#### ***Interest Income***

- Present Withholding Tax deductible by banks or financial institutions on interest from deposits at the rate of 2.5% to be removed. Such income will be considered as part of the total statutory income.
- Exemption of income from interest on money deposited in banks or financial institutions by senior citizens (over 60 years of age) remain unchanged.
- Deduction of Withholding tax on interest income arising to an individual out of Sri Lanka to be reduced from 20% to 15%, subject to the rate specified under any applicable Double Taxation Avoidance Agreement.
- The 15% interest rate for senior citizens will be extended for all citizens above the age of 55 years and for a total deposit value of Rs. 1.5 million.

#### ***Miscellaneous***

- Individual taxpayers who pay Rs. 25 million or more will be granted special privileges.
- Considering the tax free allowance entitled to be deducted by individuals, charitable institutions etc., other deductions from the total statutory income and the assessable income will be disallowed, except for the losses incurred from trade, business, profession or vocation.
- Exemptions on profits from employment, referred to in section 8 of the Inland Revenue Act, to be removed, other than the following:
  - Retiring benefits and pensions paid out of the Consolidated Fund to Government employees ;
  - Earnings in foreign currency on employment out of the country , if such earnings are remitted to Sri Lanka;
  - Exemptions for diplomatic missions and diplomatic personnel ;
  - Release of the provident fund balance at the time of retirement;
  - Compensation for loss of office subject to conditions.

All the other cash and non-cash benefits (treated as benefits from employment) are liable to tax, if they exceed the tax free threshold.



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### *Amendments on Motor vehicle related tax/levy*

- Tax on Luxury and Semi Luxury Motor Vehicle Tax will be removed with effect from 01st April 2016.
- Fees charged on valuation certificates obtainable for the purpose of finance facilities will be changed as given below:  
LKR 5,000 for three wheelers and Motor cycles  
LKR 25,000 for all other vehicles
- A fee on any unregistered vehicle assembled in Sri Lanka to be registered prior to 31st March 2016 is payable to Department of Motor Vehicles (RMV) as follows:  
LKR 1 Mn for Cars and Vans  
LKR 0.75 Mn for other vehicles
- A fee is imposed in lieu of Motor Vehicle Importers Registration fee payable to CGIR before opening Letters of Credit (LC's) (w.e.f 1st January 2016) as follows:  
LKR 2,000 for Motor Cycle/ Three wheeler  
LKR 15,000 for Motor Car
- One time fee on unique number plate to be LKR 2.5 Mn.
- Emission Levy of LKR 5,000 p.a. is payable to Divisional Secretariat at the point of renewal of annual license on every motor vehicle, which is over 3 years.
- Motor vehicle License fee will be revised with effect from 01st January 2016.
- A fine of LKR 10, 000 to be imposed on a person who is responsible on road accidents and cost on damage of government property (if any).



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## ***1. VAT (w.e.f. 01st January 2016)***

### ***Rate Schedule***

| Rate  | Nature of Supplies   |
|-------|--|
| 0%    | Export of goods and provision of services outside Sri Lanka paid / payable in foreign currency |
| 8%    | Manufacturing or import and sale of goods (Limitation of input tax is applicable)              |
| 12.5% | Service sector   |

### ***Threshold***

Threshold is reduced to LKR 3 Mn per quarter or LKR 12 Mn p.a.

### ***Removal of Exemptions***

The exemption on the import or supply of telecom equipment or machinery, high tech equipment including copper cables for telecom industry to be abolished.

### ***Exclusions***

Wholesale and retail trade (other than by a manufacturer or importer) will be excluded from chargeability of VAT.



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## ***2. NBT (w.e.f. 01st January 2016)***

### ***Revision of tax rate***

Present rate of NBT of 2% to be increased to 4%.

### ***Threshold***

- Threshold will be reduced to LKR 3 Mn per quarter.
- Threshold of LKR 25 Mn per quarter to be removed, other than for any locally procured agricultural produce in the preparation for sale.

### ***Removal of Exemptions***

Exemption on following articles or services will be abolished:

- Telecommunication service
- Supply of electricity
- Lubricants

## ***3. Economic Service Charge (ESC) (w.e.f. 01st April 2016)***

- ESC rate to be increased from 0.25% to 0.5%.
- Present exclusion of ESC on previous year profit making businesses to be removed.
- Present maximum liability of Rs. 120 million per year to be removed.
- Period for carried forward of ESC to be set off against income tax payable for any period commencing from April 1, 2016, to be reduced to 3 years.



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## *1. Customs Duty Tariff Schedule*

### *Revision of Duty*

- Present 4 band tariff structure will be changed as follows

| Current | Proposed |
|---------|----------|
| 0%      | 0%       |
| 7.5%    | -        |
| 15%     | 15%      |
| 25%     | 30%      |

- Custom Duty will be revised on Beedi leaves, Beedi, Garments, Foot-wear, Beer, Wine, Whisky, and Ethanol. Agriculture machinery and equipment, dairy industry machinery and equipment and fishing nets. Sports equipment and Musical instruments. Yachts, caravan carriages, surfing equipment and mini cruise boats identified under specified HS Code No.

### *Negative List*

- Certain items in the negative list (tiles, ceramic and sanitary ware) will be removed.

### *Free Trade Representation*

- Sri Lanka will complete its commitments on Tariff Liberalization (Phase I) of the South Asian Free Trade Area effective from November 21, 2015. On December 2015 target of commitments on the Tariff Liberalization (Phase II) of the South Asian Free Trade Area effective from November 21, 2015.

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## ***1. Miscellaneous***

### ***1.1 Ports and Airports Development Levy (PAL)***

- Rate of levy to be increased from 5% to 7.5%.
- To encourage spending by tourists, rate to be reduced from 5% to 2.5% on certain electronic and electrical items.
- Present rate of 5% on certain machinery to be removed.

### ***1.2 Betting and Gaming Levy***

- Present entry fee of USD 100 per person who enters Casino entertainment to be removed.
- Present annual levy of Rs. 200 million for carrying on the business of playing rudojino to be reduced to Rs. 5 million per year.
- Present annual levy of Rs. 200 million for carrying on the business of Casino to be increased to Rs. 400 million per year.

### ***1.3 Casino Industry Levy***

- Directors and shareholders will be personally liable for non-payment or any act which is done to avoid payment of Casino Industry Levy (one off levy).

### ***1.4 Share Transaction Levy (STL)***

- STL to be removed with effect from January 1, 2016.

### ***1.5 Construction Industry Guarantee Fund Levy (CIGFL)***

- CIGFL to be removed with effect from January 1, 2016.

### ***1.6 Tourism Development Levy (TDL)***

- TDL will be removed.

### ***1.7 Excise Duty***

- The liquor manufacturing License fee and duty rates to be revised.
- Excise (Special Provisions) Duty rates to be revised.



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## ***1.8 Special Commodity Levy (SCL)***

- In order to promote local industry SCL to be increased on import of fish related products and the rate to be revised on certain commodities.

## ***1.9 Cess***

- Removal of Cess to encourage export of value added products - 'export Cess' to be removed on pepper, cloves and nutmeg.
- Impose of Cess to encourage local industry - Cess at the rate of 10% to be imposed on import of jewellery.

## ***1.10 Land (Restriction on Alienation) Act***

- Restriction on transfer to be removed for certain identified investments.
- Tax on leasing of lands to be removed.

## ***1.11 Mansion Tax***

- Mansion tax applicable on condominium units to be removed. First instalment of the Mansion tax is payable on or before March 31, 2016.

## ***1.12 Telecommunication Levies***

- International Telecommunication Operators Levy (ITOL) on incoming calls to be increased US\$ Cents 9 to US\$ Cents 12 with effect from January 1, 2016.
- Environmental Fee to be charged per tower at the rate of Rs.50, 000/- per annum with effect from January 1, 2016.
- Cess levied at 2% for international transit traffic to be exempted with effect from January 1, 2016.

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### **1.13 Other Levies and Charges**

- Beedi manufacturing License fee to be increased from Rs 1,500/- to Rs 5,000/-.
- Embarkation Levy to be increased from US\$ 25 to US\$ 30.
- Passport Fee to be revised to as follows;
  - One Day Service – Adult Rs. 10,000
  - One Day Service – Child Rs. 5,000
  - Normal Service – Adult Rs. 3,000
  - Normal Service – Child Rs. 2,000from January 1, 2016.
- Application fee for dual citizenship from Rs. 250,000 to Rs. 300,000 and SAARC visa from USD 10 to USD 20.
- New Residence Visa fee for foreigners to be introduced to encourage foreign investments as follows;
  - USD 1 million for residence visa (period of 3 years)
  - USD 5 million for residence visa (permanent residence).
- Every company registered with the Registrar of Companies to be subjected to an Annual License fee of Private Companies Rs 60, 000, Public Quoted Companies Rs 500,000 and Other Rs 100,000 payable to the Registrar of Companies. The present rates to be revised with effect from January 1, 2016.
- Rs. 250,000/- to be charged on liquidation Voluntary liquidation of a company.
- All business entities should be registered with their respective local councils at a nominal fee of Rs. 100/- per year.
- Present composite tax imposed on sale of garments to the local market by export oriented companies to be increased to Rs200 /- per piece. The same rate to be extended to sale of footwear to the local market by export oriented companies.
- Applicable rate for sale of fabric and cut pieces remains the same.
- The sale of export quality products to the local market by export oriented BOI companies to be restricted to 5% of the total turnover and to be subjected to the tax at the rate specified above.
- A charge to be imposed on Airlines on the sale of international tickets at US\$ 2.00 per passenger.





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## *Income Taxation- Corporate*

### *Rate Structure*

Rate structure to be revised to two tax rates;

- a. Standard rate of 15% - all the sectors, other than sectors given below
- b. Higher rate 30%:
  - Betting & Gaming
  - Liquor
  - Tobacco
  - Banking and Finance including insurance, leasing and related activities etc.
  - Trading activities other than manufacturing or providing of services

### *Removal of Exemptions*

- i. Certain exemption on dividends after the completion of the tax holiday period.
- ii. Tax and miscellaneous exemptions granted to certain organizations under section 7 and section 13.
- iii. Certain exemptions applicable on Institutions.
- iv. Miscellaneous exemptions relating to;
  - i. construction of any Port in Sri Lanka
  - ii. administration of any sports ground, stadium or sports complex
  - iii. to any company abroad from any payment made for the use of any computer software, by Sri Lankan Air Lines Ltd or Mihini Lanka (Pvt) Ltd
  - iv. any service rendered by any person or partnership in any port in Sri Lanka in the course of any business carried on within such port
  - v. operation of any port terminal in Sri Lanka

## Tax Concessions

|  |   |
|--|---|
| <p><b>Agriculture</b></p> <p>i. Locally developed seeds and planting materials<br/> ii. Agriculture by a company using drip irrigation method, greenhouse technology and high yielding seeds</p>   | <p>50% reduction of the tax payable for 5 years</p>   |
| <p><b>Development of Micro and SME Sector</b></p> <p>i. Private Equity Funds or Venture Capital companies on the profits earned by providing funds to upgrade SMEs registered with the SME Board of CSE up to the trading level<br/> ii. SMEs, creating incubators for SMEs by investing in designated areas</p>   | <p>50% reduction of the tax payable for 5 years</p> <p>50% reduction of the tax payable for 3 years</p> |
| <p><b>Thrust Industries</b></p> <p>Locally manufacturing of red clay tiles</p>   | <p>50% reduction of the tax payable for 3 years</p>   |
| <p><b>Other Concessions</b></p> <p>i. Academic entity offering internationally accredited courses or training programs aimed at geriatric care or child care;<br/> ii. Building housing facilities for the elderly persons;<br/> iii. Construction and sale of housing units in collaboration with the Government, to officers of the government sector.<br/> iv. Any company specifically incorporated for MICE (Meeting, Incentive, Conferences and Exhibitions)</p> | <p>50% reduction of the tax payable for 5 years</p>   |
| <p>v. The profits generated by a company which is attributable to the expansion carried out by modernization of existing factories which is considered based on the employment generation within a period of one year commencing from 01 April 2016</p>  | <p>1/2 rate of the applicable rate for 3 years</p>  |
| <p>vi. Investment in lagging region by a new company (not by splitting or reconstruction of an existing company) engaged in manufacturing (other than liquor or tobacco) or provision of services</p> <ul style="list-style-type: none"> <li>- minimum investment of US\$ 10 Mn or 500 new employment</li> <li>- If new employment exceeds 800</li> <li>- If the investment is in a theme park</li> </ul>  | <p>50% reduction of the tax payable</p> <p>5 years</p> <p>8 years</p> <p>10 years</p>                   |
| <p>vii. The 50% rate reduction on listing in CSE will be extended by expanding the present deadline of April 1, 2017 for further</p>   | <p>- 2 years for listing in CSE ; or<br/> - 3 years for listing in any foreign Stock Exchanges</p>      |
| <p>viii. The profits and income from the cultivation of tea or rubber by any plantation company, of which the Government shareholding is in existence</p>  | <p>Exempted for 2 years commencing from April 1, 2016.</p>  |
| <p>ix. Corporate debt securities</p>   | <p>exempt from income tax and WHT</p>   |



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### *Qualifying Payments*

|   |  |
|---|--|
| i. Construction Industry: Cost of acquisition of machinery necessary for purifying sea sand<br>ii. Agriculture: Cost of acquisition of any machinery used for canning fruits and vegetables | Qualifying payment in addition to the depreciation allowance claimable |
| iii. Cost of acquisition or merger of banks or financial companies under the Banking and Financial institutions consolidation process   | Qualifying relief to be removed  |

### *Triple Deduction*

- Triple tax deduction for R&D activities to be extended to accommodate endowments given to National Universities
- Triple deduction for Research and Development expenses to be allowed, only if a technology advancement and yield development is proved.

### *Interest Income*

- Exemption on the interest income on foreign loans to be restricted on the interest on loans taken from foreign banks or financial institutions.
- Withholding Tax deductible by Bank or Financial institutions on interest from deposits at the rate of 2.5% will be removed; such income to form a part of the total statutory income
- Exemption of income from interest on money deposited in banks or financial institutions by senior citizens to continue.
- Deduction of Withholding tax on interest income arising to individuals out of Sri Lanka to be at 15% subject to the rate specified under any Double Taxation Avoidance Agreement.



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### *Investments & Tax exemptions*

- Exemption from income tax to be granted on foreign currency inflows. Foreign investments to be facilitated by the introduction of the Foreign Exchange Management Act.
- Dividends on investment made by non- citizens or foreign companies in listed shares through inward remittance to be exempted.
- Granting of tax concessions for any investment to be strictly under the supervision and monitoring of the Ministry of Finance which would be governed by regulations issued by the Minister. BOI or IRD will not grant any new tax holidays other than facilitation and implementation of the concessions.

### *Other Amendments*

- Management fee to be defined for the purpose of insurance industry.

### *Administrative Provisions*

- Any refund claim for any Y/A commencing on or after April 1, 2016, to be finalized within three years from the claim of such refund. If not the refund to be allowed to be set off against future tax liabilities.
- The penal provisions to be made more stringent, to strengthen the tax collection and to ensure proper implementation of "transfer pricing".
- Administration of the transfer pricing on domestic transactions will be simplified and the areas will be specified limiting the scope considering the associated cost involved.



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### *Regulatory Changes*

- Strategic Development Act will continue to be effective for existing companies that have availed the concessions under that Act. For new investments, instead of Strategic Development Act, the “New investment” Act will be enacted.
- Foreign investments to be facilitated by the introduction of the Foreign Exchange Management Act.
- International freight forwarding to be liberalized so that foreign participation could extent up to maximum of 75% with a minimum investment of USD 5 Mn subject to a minimum local employment of 90%.
- SIA to be abolished and foreign investment to be channeled through any bank account existing in the formal banking system
- Share Transaction Levy to be removed with effect from 01 January 2016.
- Banks to cease engaging in leasing business from 01 June 2016
- Listed Real Estate Trust to be introduced in order to provide capital to real estate and infrastructure development and to enable small investors to directly benefit from the growth of real estate sector.