



Implementation of New Tax Proposals

Notice to Tax Payers issued by Inland Revenue Department – 29th November 2019



Implementation of new tax proposals

Given below are the new direct and indirect tax proposals due to be implemented as published by the Inland Revenue Department on 29th November 2019.

Proposals effective Y/A 2019/20

1. Income from agriculture, fisheries and livestock will be exempted from income tax
2. Income tax rate applicable to the construction industry will be reduced from 28% to 14%
3. Information technology and enabling services will be exempt from all taxes.

Proposals effective 1st December 2019

4. The VAT rate will be reduced to 8% from previous 15%

Presumably there is no change to existing rules applicable on claiming of input credit. VAT on financial services will continue at 15%

5. Nation Building Tax will be abolished
6. Religious institutions will be exempted from income tax
7. Income earned from the supply of services for receipts in foreign currency will be exempted from income tax.

Presumably this exemption will be applicable to any person.

Proposals effective 1st January 2020

8. VAT registration threshold will increase from 12Mn per annum to 300Mn per annum.

It is presumed that the above increase in threshold applies to all supplies (other than supply of financial services) in the absence of any specifications.

Whilst this proposal will eliminate the VAT chargeability burden from small and medium business it may also increase costs by restricting the claimability of input VAT on purchases especially VAT incurred at the point of importation. It is not clear whether voluntary registration is an option.

9. Tax-free threshold for personal and employment income will be Rs 3mn per annum. The excess will be taxed at progressive rates of 6% & 12% for every tax slab of Rs 250,000/- and the balance at 18%.
10. Withholding tax on interest income will be exempted up to Rs 250,000/- per month.

This may mean that interest income will no longer be a final tax for individuals. The total interest income derived for a year of assessment may have to be included in the total assessable income of an individual and taxed at progressive rates if in excess of Rs 3Mn per annum. Previously interest income where tax has been withheld at 5% was a final tax in the hands of the individual.

Let's Talk

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