



Special Deposit Account Regulation issued under the Foreign Exchange Act 12 of 2017



A regulation on “**Special Deposit Account**” has been issued via Gazette No. 2170/4 dated April 08, 2020 as follows;

1. Special Deposit Account (SDA)

Permission has been granted for period of six months from 08.04.2020 to open and maintain an account titled “Special Deposit Account” in the form of Term Deposits either in any designated foreign currency or in Sri Lanka Rupees with an authorized dealer in Sri Lanka, out of inward remittances from abroad routed through the banking system favoring the account holder.

This regulation has been issued to attract foreign currency into Sri Lanka.

2. Eligible Persons

Any Sri Lankan individual resident in or outside Sri Lanka including Dual Citizens, Citizens of other States with Sri Lankan origin and any person resident outside Sri Lanka including funds, corporate bodies, association and other well-wishers.

3. Tenure of the SDA

A tenure of 6 months and 12 months

4. Interest

- > 6 months tenure – 1% above the deposit interest rates applicable for normal deposits of similar maturities by the respective bank
- > 12 months tenure – 2% above the deposit interest rates applicable for normal deposits of similar maturities by the respective bank

Interest is payable at maturity of the deposit.

5. Repatriation of Funds

Freely convertible and repatriable outside Sri Lanka on the maturity of the term deposits.

6. Designated foreign currencies

United States Dollars (USD), Euro, Sterling Pound, Australian Dollars, Singapore Dollars, Swedish Kroner, Swiss Franc, Canadian Dollars, Hong Kong Dollars, Japanese Yen, Danish Kroner, Norwegian Kroner, Chinese Renminbi and New Zealand Dollars.

7. Exemption from certain procedural requirements

- The SDA will be exempted from any procedural requirements specified in the Foreign Exchange (Classes of Capital Transactions in Foreign Exchange Carried on by Authorized Dealers) Regulations No. 1 of 2017 published in the Gazette Extraordinary Notification No. 2045/56 dated November 17, 2017.
- It is unclear whether the 1% remittance tax applicable on remittances by Sri Lanka resident citizens of specified undeclared funds (as stipulated under section 8 of the Foreign Exchange Act No 12 of 2017) applies for remittances under this new Regulation
- However, as per the circular dated 2nd April 2020 issued by the Central Bank of Sri Lanka, it appears that all foreign currency remitted into Sri Lanka by any person including Sri Lanka resident citizens, during the COVID-19 prevention period would enjoy exemptions from any foreign exchange regulations.

8. Tax Implications

- > As per a press notice issued by the Inland Revenue Department (IRD) on 08.04.2020 the following exemption on interest is available;
 - o the interest accruing to or derived by any person on moneys lying to his credit in foreign currency in any foreign currency account opened by him or on his behalf, in any commercial bank or in any specialized bank, with the approval of the Central Bank of Sri Lanka

As per above notice, the interest derived from SDA account where the deposit is maintained in foreign currency should enjoy an income tax exemption.

 - o It appears that interest accruing on SDA accounts maintained in Sri Lanka Rupees would not enjoy an income tax exemption under the current Inland Revenue Act. However this may be addressed by the relevant authorities in the future.

Let's Talk

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