Sri Lanka Tax Profile

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1 Corporate Income Tax

1.1 General Information

Tax Rate

Corporate Tax. The standard tax rate is 28%.

Tax rates of 14% and 40% also apply to profits from specific businesses.

Residence

A Sri Lankan resident company is a company incorporated under the Sri Lankan laws, or that has its registered or principal office in Sri Lanka, or where the control and management of business is exercised in Sri Lanka, at any time during the year.

Basis of Taxation

Resident companies are taxed on worldwide income, whereas non-resident companies are taxed only on income derived from a source in Sri Lanka.

Tax Losses

Losses can be set-off against profits for a given year, subject to certain restrictions.

Unutilized losses incurred in a year of assessment can be carried forward up to 6 subsequent years.

Tax Consolidation/Group relief

Group consolidation relief for tax purposes is not currently available.

Transfer of Shares

Gains arising on transfer of shares are taxable as income of shareholders, other than gains on transfer of shares listed in the Colombo Stock Exchange.

Transfer of Assets

Gains arising on transfer of capital assets used in business are liable to tax as a trading profit, while gains arising on transfer of investment assets are taxed as capital gains at the rate of 10%. Transfer of assets to "an Associate" shall be treated as deriving proceeds equal to market value or net cost at transfer, depending on certain conditions and circumstances of the transaction.

Capital Duty (Non-Tax Planning)

Not applicable

CFC Rules

Not applicable

Thin Capitalization

The thin capitalization regime restricts deductibility of finance costs in the calculation of taxable income. Finance costs deductible for a year of assessment are such that interest is relation to debt that does not exceed 3 times of equity for manufacturers and 4 times for others. Interest exceeding the limit could be carried forward for up to 6 years and claim when ascertaining profits, subject to the same limitation.

Interest Deductibility Restrictions

Interest expenses, subject to thin capitalization rules, may be deducted in calculating taxable income insofar as debts are incurred in relation to production of income or for the purchase of assets used in a year of assessment for production of income.

Amalgamations of Companies

The law does not contain specific provisions in relation to amalgamation of companies. Administratively, the Tax Authority considers that the amalgamating company ceases its business operations. Tax implications on shareholders in the case of an amalgamation are to be specified by the Commissioner General of Inland Revenue.

Earnings Stripping

Not applicable.

General Anti-Avoidance

Schemes entered into for the sole or dominant purpose of obtaining tax benefits, may be disputed and the effect of such transactions maybe cancelled and tax liability would be determined as if such a scheme did not occur or as if reasonable alternative scheme has been entered into.

Anti-Treaty Shopping

The benefits (i.e. exemptions, exclusions or deductions) in a Double Tax Avoidance Treaty would not be available to a body, resident in the other contracting state when 50% or more of the underlying ownership or control of that body is held by an individual or individuals who are not residents of that state.

Other Specific Anti-avoidance Rules

Where arrangements exist between associated persons, income, and tax payable should be calculated at an arm's length terms.

In the event a person attempts to split income with another person, the Commissioner General of Inland Revenue may prevent any reduction in tax payable by issuing a notice in writing.

Rulings

An advance ruling system is prevalent in Sri Lanka. Rulings are of two types namely, public or private.

A public ruling sets out the Sri Lankan Tax Authority's opinion on the application of provisions of the Sri Lankan Tax Act. It may be made available to public via a gazette notification and through a notice on the Tax Authority's website.

A private ruling is issued on the request of a taxpayer in a relation to a particular transaction. It may be published via the Tax Authority's website, without revealing the identity of the applicant/requestor.

Hybrid Instruments

There are no special rules applicable to hybrid instruments.

Hybrid Entities

Not applicable

Related Business Factors

Forms of legal entities typically used for conducting business

Businesses may be conducted through public limited companies, private companies, and branch offices of foreign companies.

Requirements for establishing a legal entity

Legal entities are established in line with the provisions of the Company Law in Sri Lanka and Foreign Exchange regulations. In general, there are no minimum capital requirements specified, except for the establishment of a branch (i.e. an overseas company) or an entity for retail trade with foreign control, which requires a minimum investment of USD 200, 000 or USD 5 M respectively..

1.2 Determination of taxable income and deductible expenses

1.2.1 *Income*

General

Income from business, investment, employment or any other source is taxed in the hands of taxpayers unless such income is specifically exempt from the chargeability to Income Tax.

Branch Income

Income arising on worldwide branches of a resident company would be liable to income tax in Sri Lanka. However, a foreign tax credit equivalent to the foreign tax paid in relation to that foreign source of income may be claimed.

Capital Gains

Capital Gains Tax has been re-introduced with effect from 1st April 2018. Capital gains arise on realization or deemed realization of investment assets. Gains arising on the realization of investment assets are taxable at 10%.

The Capital Gains Tax has to be settled and the return has to be filed within 30 days of realization of an investment asset.

In relation to an investment asset acquired prior to 1st September 2017, the gain on disposal would be calculated as the difference between sales proceeds and market value of such asset as at 30th September 2017.

Gains arising to a resident individual on realization of investment assets would not give rise to capital gains, if such gain does not exceed Rs. 50,000 and where the total gains made by the individual does not exceed Rs.600,000 in the year of assessment.

Additionally, gains arising on the realization of a resident individual’s principal place of residence would not be chargeable to tax, provided the individual owned the place continuously for three years prior to it being realized and lived in same at least for 2 out of the 3 years

Dividend Income

Dividend income is subject to withholding tax at 14% at the time of payment and same is considered as a final tax.

Dividend income paid by a resident company would be exempt from tax in the hands of the recipient, to the extent such dividends are paid out of dividends received which have already been subject to withholding of tax.

Offshore dividend received by a resident company would be exempt from tax if the shareholder has a substantial participation in such non-resident company.

“Substantial participation” is defined to mean “holding 10% or more of the value of shares (excluding redeemable shares) in a company and control (directly/indirectly) of 10% or more of the voting power in the company”.

Interest Income

Interest income is subject to corporate tax at the rate of income tax applicable to the company. It is also subject to withholding tax at the rate of 5% at the time of payment, subject to certain exclusions.

Interest income of a charitable institution would be exempt from income tax, provided it is proved to the Department of Inland Revenue that such income is applied solely for the purpose of providing care to children, the elderly or the disabled in a home maintained by such charitable institution.

Interest income received by any non-resident or any Sri Lankan licensed commercial bank, from an issuer of any sovereign bond denominated in foreign currency, issued on or after 21st October, by or on behalf of the government of Sri Lanka is also exempt from income tax.

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Interest on treasury bonds and treasury bills are not subjected to withholding of tax.

1.2.2 *Expenses*

General

Expenses incurred in the production of business and investment income may be deducted from corresponding income, excluding expenses of a capital nature.

Minimum Taxation Requirements for the Deductibility of Losses

Business losses can be deducted against both business and investment income, insofar as if the loss were a profit it would have been subject to tax at a rate equal to or higher than the rate at which the profits, from which it is used against, are subject to tax.

Investment losses can only be used against investment income.

Capital Losses

Capital losses cannot be set-off against any capital gains or deducted against other forms of taxable income.

Carry Forward

Losses can be set-off against profits for a given year, subject to certain restrictions. Losses incurred from business during a year of assessment could be set off against income from business activities or against income from investment activities. However, losses incurred on the realization of investments could only be set off against income from investments.

If the loss has been incurred in a business activity which is subject to tax at a reduced rate, such loss could be utilized only in calculating income which is taxed at the same rate ,lower rate or exempt profits.

Unutilized losses incurred in a year of assessment can be carried forward up to 6 subsequent years.

Carry Back

There are no carry back provisions in Sri Lanka

Bad Debts

An amount recognized as bad debts may be deducted as an expense, as long as reasonable steps are taken in pursuing payment and it has been concluded that entitlement/debt claim will not be satisfied

Change of Control Rules

Where the underlying ownership of a company changes by more than 50% in comparison to any time in the past 3 years and as well as the nature of the business conducted changes, within 2 years after ownership composition changes, for tax purposes the company will be deemed to have two years of assessment, I.e. one related to before change and the other starting from date of change, for that tax year. Additionally, financial costs and losses brought forward from before the change cannot be utilized after the change. Furthermore, the entity is not entitled to disclaim certain income (e.g.: write off of debts recognized in a period prior to the change in ownership) accounted for a period prior to the change in ownership.

Depreciation/Capital allowance

Capital allowances for depreciable assets owned and used in production of income throughout the year, are deductible from business income. The rates are as follows:

Type of depreciable assets	Rate of Capital allowance (CA)
Computers, data handling equipment & peripheral devices	20%

Buses & Minibuses, goods and other heavy general purpose trucks/trailers and plant & machinery used in manufacturing	20%
Railroad cars, water transportation equipment, aircraft, other plant, machinery, equipment and office furniture & fittings.	20%
Buildings and other works of permanent structure	5%
Intangible assets (excluding goodwill)	CA is spread evenly over the useful life of the asset or where indefinite useful life, spread over 20 years.

Double Deductions

In order to avoid double deductions, the more specific rule regarding an expense must be followed and adjustments must be made in order to avoid expenses being deducted more than once.

Interest Expenses

Interest expenses are deductible from income, subject to interest deductibility restrictions as stated previously.

Inventories

An allowance for trading stock (i.e. in place of cost of sales) is deductible in calculating taxable income. Allowance is calculated by adding expense incurred in respect of trading stock during the year to the brought forward opening balance of trading stock, less closing stock of trading stock (valued at the lower of net cost or market value at year end).

The closing value of trading stock of a business for a Year of Assessment, shall be the lower of:

- the cost of the trading stock of the business at the end of the year; or,

- the market value of the trading stock of the business at the end of the year.

Other Significant Items

Temporary concessions

- Any institution established on or after 1st October 2017, by relocating in Sri Lanka the headquarters or regional head offices of Institutions in the international network, as specified by the Commissioner General of Inland Revenue by notice published by Gazette will be taxed at the rate of zero for the purposes of Income Tax for three Years of Assessment from 1st April 2018.

- Any person who has entered into a Standard Power Purchase Agreement on or before 10th November 2016 with the Ceylon Electricity Board to provide electricity generated using renewable resources, would be liable to Income Tax at the rate of 14% for three Years of Assessment from 1st April 2018.

- A company engaged in providing information technology services shall be entitled for a deduction equal to 35% of the total amount deducted from the year under this Act which represents payments made by the company which are to be included in calculating the taxable income of its employees (other than as a company director) subject to the company meeting prescribed conditions.

- Gains and profits on an insurer engaged in the business of Life Insurance shall include surplus transferred to policy holders under participating insurance business, and same will be liable to tax at the concessionary rate of 14%, for a period of three years from 1st April 2018.

- A person is entitled to an additional deduction when calculating the person’s income from business for a year of assessment equal to 100% of the total amount of research and development expenses deducted for the year as prescribed in the Inland Revenue Act, for a period of 3 Years of Assessment from 1st April 2018.

1.3 Tax Compliance

Compliance Requirements

Sri Lanka has a self-assessment system for Income Tax payments.

Income Tax returns are filed annually on or before the 30th of the 8th month from the end of every year of assessment.

The payments of Income Tax are to be paid in 4 quarterly instalments.

Non-filing of returns or non-payment of taxes by due dates may result in penalties and interest being imposed.

Mandatory Electronic Filing

Returns may be filed manually at the head offices of the Sri Lankan Tax Authority or electronically. So far no compulsion of using a certain method has been ordered. However, once one begins filing returns electronically, same must be continued unless expressly authorized to be filed manually.

Requirement to Prepare Tax Computation / Return in Functional Currency

All figures in the tax computation and return must be quantified in Sri Lankan Rupees.

Documents to File with Tax Return

The Commissioner General of Inland Revenue is yet to prescribe the information to be furnished along with the Income Tax return. Generally same includes, Audited Financial Statements, withholding tax certificates, Certification on transfer pricing etc.

Language to File Return, Computation and Supporting Documentation(s)

Returns, computations, and supporting documents such as financial statements have to be in either Sinhala, Tamil or English. Other records may need to be translated to one of the 3 languages upon tax authority's request.

Filing Extension Availability and Details

Not applicable

Payment of Estimated Tax

The tax payments should be made in four quarterly installments. For this purpose, a Statement of Estimated Income Tax Payable for a year of assessment should be submitted when making the first installment payment. Any change to the estimate should communicated to the Tax Authority via a revised Statement of Estimated Income Tax Payable, when making subsequent installment payments.

Interim Tax Returns

Not applicable

Payment of Tax

Tax imposed may be payable by withholding, quarterly instalments or on assessment, depending on source of income and circumstances

Penalties for Non-Compliance

Failure to notify changes in taxpayer information or to register an authorized representative, may result in a penalty not exceeding Rs. 50,000 being imposed.

Failure to file a return by the due date would result in a penalty that is the greater of:

- 5% of tax owing plus a further of 1% for every month the return until the return is filed or
- Rs. 50,000/- and Rs 10,000/- for every month the return continues to be unfiled.

However, the penalty would not exceed Rs. 400,000/-.

Failure to pay all or part of the tax due for a tax period within 14 days of the due date would give rise to a penalty of 25% of the tax due.

Failure to pay all or part of a tax installment within 14 days of the due date would give rise to a penalty of 10% of the tax due.

In the event of negligent or fraudulent underpayment of taxes, penalty would be imposed up to 75% of the underpayment, if the amount of underpayment is higher than Rs. 10 M or higher than 25% of the person's tax liability for the period. In any other event, penalty would be imposed at 25% of the amount underpaid.

Penalties and/or Interest for Underpayment of Taxes

Interest at the rate of 1.5% will be charged for every month consequent to the due date.

Statute of Limitation

Time bar for raising an assessment is 30 months from the date of filing tax return. In the event an assessment has been raised, an additional assessment could be raised within four years from the date of filing the tax return.

1.4 Financial Statements/Accounting

Details of Local Accountant Requirements

Financial statements are prepared in accordance with Sri Lanka Financial Reporting Standards and Lanka Accounting Standards. These standards are in line with International Financial Reporting Standards and International Accounting Standards.

Fiscal Year

For tax purposes, a year of assessment is considered as a period of 12 months from the 1st April to 31st March of the subsequent year. However, companies and trusts may apply for a different accounting period as the year of assessment. (e.g. calendar year) and same requires the approval of the Commissioner General of Inland Revenue.

Periodicity of Local Books to be Closed

Financial statements are to be prepared for a 12 month period, other than in certain specific circumstances.

Financial Statements Language

Financial Statements provided to the Tax Authority, are permitted to be in Sinhala, Tamil or English.

Documentation to be presented with the Financial Statements

Not applicable

Retention Period for Statutory Financial Statements / Working papers

Financial statements and working papers are required to be retained for a minimum period of 5 years from transaction date. Where an assessment has been raised, documents must be retained until the expiration of the time limit of the assessment or until any related proceedings are completed.

Requirements to Retain Physical Copies Locally/Electronically Stored Data to Reside on In-country Server

Information sufficient to record all transactions and ascertain gains/profits/losses, must be kept and maintained in Sri Lanka.

Requirements to Prepare Financial Statements in Local Currency

All figures in the financial statements must be quantified in Sri Lankan Rupees.

What GAAP must the Financial Statements be Prepared Under?

Financial Statements to be prepared in accordance with Sri Lanka Financial Reporting Standards.

Prescribed Format and Details for Financial Statements

Financial Statements are to be prepared based on the formats prescribed in the Sri Lanka Financial Reporting Standards.

Filing Due Date

Due date of filing financial statements would coincide with the due date of return filing.

Filing Format of Financial Statements

Financial Statements to be submitted to the Department of Inland Revenue, prepared in accordance with the Sri Lanka Financial Reporting Standards.

Filing Extension Availability and Details

Extensions may be applied for and granting of extensions would be subject to the decision of the Tax Authority.

Penalties for Non-Compliance

Noncompliance with the provisions of Companies Act, including failure to furnish an annual return would result in a penalty of LKR 50,000 being imposed.

1.5 Incentives

Intellectual Property Incentives

Not applicable

R&D Incentives

Research and Development expenditure and certain agricultural start-up expenditure are deductible in calculation of assessable income, including both capital and revenue nature expenses. Additionally, a person is entitled to an additional deduction of 100% on Research and Development expenses for 3 Years of Assessment from 1st April 2018.

Special Tax Regimes for Specific Industries or Sectors

Non-Governmental Organizations (NGO)

NGOs are liable to an additional tax of 28% on 3% of the amounts received as grants, donations or contributions.

Life Insurance

The gains and profits of a person engaged in the business of Life Insurance, whether mutual or proprietary, would be ascertained taking the aggregate of –

a. The surplus distributed to shareholders from the Life Insurance Policy Holders Fund as certified by the Appointed Actuary functioning within the regulation of the Insurance Industry Act, No.43 of 2000; and

b. The investment income of the Shareholder Fund less any expense incurred in the production of such income.

In the case of participating insurance business, surplus transferred to policy holders would also be deemed to be an income of the insurer.

Other Incentives

Enhanced Depreciation Allowance

New Investments

Incentives are available in the form of enhanced capital allowances as an additional deduction to a person who invests in depreciable assets (excluding intangibles) in Sri Lanka other than in the course of expansion of an existing business. This is granted in addition to the capital allowance on such asset.

100% of investment in assets used in any part of Sri Lanka apart from the Northern Province, would be allowed as a deduction if total expenses exceeds USD 3 million and if investment exceeds USD 100 million, 150% of expenses would be granted as an enhanced capital allowance.

If assets are used in the Northern Province, enhanced capital allowances of 150% would be granted where investment exceeds USD 3 million.

Temporary concessions

A temporary concession is available for a period of three years effective from 1st April 2018, under which, an investment in certain depreciable assets upto USD 3 million would be entitled to a 100% investment allowance, in addition to the depreciable allowance. The investment allowance will be granted at 200% if the investment is made in the Northern Province.

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1.6 International Taxation

Double Taxation Relief

Double Taxation Avoidance Treaty Agreements prevail over the Inland Revenue Act. However, in terms of the Inland Revenue Act, such Treaties are applicable only where the nonresident's underlying ownership or control of more than 50% is held by individual/individuals of that country.

Foreign-Exchange Controls

The Foreign Exchange Regulations provide rules on inbound and outbound investments and commercial transactions between residents and non-residents.

International Withholding Tax Rates

Dividends paid to individuals or legal entities that are registered abroad are subject to withholding tax at the rate of 10%. There is no tax exemption on dividend income in Laos.

Withholding tax is imposed on payments such as dividends, royalties and technical fees. The following are the Sri Lankan domestic withholding tax rates on payments to a non-resident. Rates may be reduced where there is an applicable tax treaty.

Dividends: 14 %t

Royalties/ technical fees: 14 %

Interest: 5%

The following are excluded from chargeability to withholding tax:

- Interest payments to financial institutions on ordinary loans and advances.
- Interest payments by an individual other than in the course of conducting a business.
- Interest on treasury bills and treasury bonds

Withholding Tax Rates under the Income Tax Treaties

Sri Lanka – Treaty Withholding Rates Table				
	Dividends		Interest	Royalties
	Individuals, companies	Qualifying companies		
	(%)	(%)	(%)	(%)
Domestic Rates				
Companies:	14	Not available	5	14
Individuals:	14		5	14
Treaty Rates				
Australia	15	Not available	10	10
Bahrain	10	5 / 7.5 [1]	10	10
Bangladesh	15	Not available	15	15

Treaty Rates	Individuals, companies (%)	Qualifying companies (%)	Interest (%)	Royalties (%)
Belarus	10	7.5 [2]	10	10
Belgium	15	Not available	10	10
Canada	15	Not available	15	10
China (People's Rep.)	10	Not available	10	10
Denmark	15	Not available	10	10
Finland	15 [3]	[3]	10	10
France	14	Not available	10	10
Germany	15	Not available	10	10
India	7.5	Not available	10	10
Indonesia	15	Not available	15	15
Iran	10	Not available	10	8
Italy	15	Not available	10	15
Japan	14	Not available	5 [4]	7 [5]
Korea (Rep.)	15	10 [6]	10	10
Kuwait	10	5 [7]	10	20
Luxembourg	10	7.5 [8]	10	10
Malaysia	15	Not available	10	10
Mauritius	15	10 [9]	10	10
Nepal	15	Not available	15	15
Netherlands	15	10 [10]	10	10
Norway	15	Not available	10	10
Pakistan	15	Not available	10	20
Palestine	10	Not available	10	10
Poland	15	Not available	10	10
Qatar	10	Not available	10	10
Romania	12.5	Not available	10	10
Russia	15	10 [11]	10	10
Seychelles	10	7.5 [12]	10	10
Singapore	10	7.5 [13]	10	10

Treaty Rates	Individuals, companies (%)	Qualifying companies (%)	Interest (%)	Royalties (%)
Sweden	15	Not available	10	10
Switzerland	15	10 [14]	10	10
Thailand	15	Not available	25	15
United Arab Emirates	10	Not available	10	10
United Kingdom	15	Not available	10	10
United States	15	Not available	10	10
Vietnam	10	Not available	10	15

Notes:

1- Bahrain: 5% - If the beneficial owner is an entity wholly owned by the Government / 7.5% - If dividend paid to a company

2- Belarus: 7.5% – If the beneficial owner (other than partnerships) owns 25% of capital.

3- Finland: Effective from 1 January 2019, dividend rates will be respectively 10%, and 7.5% for qualifying dividends.

4- Japan: DTA applies domestic rate

5- Japan: DTA applies 50% of the domestic rate

6- Korea (Republic of) 10% – If the beneficial owner is a company (other than partnerships), which at least owns 25% of capital of the dividend paying company.

7- Kuwait: 5% – If the beneficial owner is the Government, Government Institution, or a Company owned by the Government or Government Institution.

8- Luxembourg: 7.5% – If the beneficial owner (other than partnerships) owns 25% of capital of the dividend paying company

9- Mauritius: 10% – If the beneficial owner is a company (other than partnerships) which at least owns 10% of capital of the dividend paying company.

10- Netherlands: 10% – If the beneficial owner is a company (other than partnerships) which at least owns 25% of capital of the dividend paying company.

11- Russia: 10% – If the beneficial owner is a company (other than partnerships) which at least owns 25% of capital of the dividend paying company

12- Seychelles: 7.5% – If the beneficial owner (other than partnerships) owns 25% of capital.

13- Singapore: 7.5% - If the beneficial owner is a company (other than partnerships) which at least owns 25% of capital of the dividend paying company.

14- Switzerland: 10% – If the beneficial owner is a company (other than partnerships) which at least owns 25% of capital of the dividend paying company

Please note, the maximum rates of withholding under each treaty have been included in the table, however in certain cases an alternative rate, or nil rate, may apply depending on whether certain criteria are met. In this regard, the table should be used as a guide and not relied upon in isolation.

Source: *IBFD*

Other Agreements

South Asian Association for Regional Cooperation (SAARC) Multilateral Treaty.

SAARC includes Afghanistan, Bangladesh, Bhutan, India, Nepal, Maldives, Pakistan, and Sri Lanka

Under Negotiation or Re-negotiation

Not applicable

Income Tax Treaties for the Avoidance of Double Taxation (Negotiated, not yet in force at time of publication)

Not applicable

Tax Treaties with Limited Application

Not applicable

Agreements for the Exchange of Information

Foreign Account Tax Compliance Act provisions (FATCA)

Indirect Offshore Disposal Rules

Not applicable

2 Transfer Pricing

Requirements

The arm's length principle applies to transactions with related companies within Sri Lanka and/or outside Sri Lanka.

There is a statutory requirement for reporting and maintenance of documentation.

Country-by-Country Reporting

Presently not applicable. However, same has been proposed to be implemented by a gazette to be published.

Master and Local Files Reporting

Presently not applicable. However, same has been proposed to be implemented by a gazette to be published.

Common Reporting Standard

Not applicable

3 Indirect Tax

Indirect Tax

Consumption tax (Value-Added Tax)

Standard Rate

Standard rate is 15% and applies to every taxable supply of goods and services supplied in Sri Lanka or imported into Sri Lanka, other than exempt supplies or zero rated supplies.

Other Indirect Taxes (Turnover Taxes)

Nation Building Tax (NBT)

Standard rate is 2%. Tax payer involved in wholesale or retail sales are liable to tax effectively at 1% of turnover, or 0.5% of turnover. In the case of a distributor, tax is imposed effectively at 0.5% on turnover.

Economic Service Charge (ESC)

Tax is imposed on turnover at the rate of 0.5% provided turnover for a quarter exceeds LKR 12.5 million. ESC paid is available as a tax credit for a period of 3 years (current year and two subsequent years).

Advance payment of ESC is imposed on imports (CIF value) which are subject to Special Commodity Levy. ESC on imports is paid disregarding the registration threshold of LKR 12.5 million per quarter. The advance ESC paid could be set-off against the ESC liability arising on turnover in that year. No refunds are available.

Further information

For more detailed indirect tax information, refer to:

KPMG's 2017 Asia Pacific Indirect Tax Country Guide

4 Personal Taxation

Top Rate

The income tax rate for an individual in Sri Lanka is between 4% and 24%, depending on the level of profits and income earned in a given year of assessment.

For employees, the employer is required to deduct tax under a withholding scheme, termed as ‘PAYE’ (Pay As You Earn) tax.

Social Security

The employers and employees contribute to the Employees’ Provident Fund (EPF) and Employees’ Trust Fund (ETF). The minimum contribution should be 8% by employees and 12% by employers in the case of EPF, and 3% by employers in the case of ETF.

International Social Security Agreements

Sri Lanka presently has not signed international Social Security Agreements with any country.

Visa Requirements

A Resident Visa is required to work in Sri Lanka.

Further Information

For more detailed personal taxation information, refer to:

KPMG’s Thinking Beyond Borders

5 Other Taxes

Stamp Duty

Stamp Duty is imposed on “specified instruments” such as deeds, insurance policies, etc. The Duty is based on the nature and value of the instrument. Furthermore, certain “specified instruments” have been exempted from Stamp Duty and same have been prescribed via Gazette Notification

Property Taxes

Land (Restrictions on Alienation)

Outright transfer of property to foreign nationals/ foreign companies is prohibited. Lease of property to foreign nationals/companies are, however, permitted up to 99 years. For this purposes “a foreign company” is defined to mean “a company or a body of persons incorporated under the laws of any country other than Sri Lanka”.

Inheritance / Gift Duty

Not applicable

Special Commodity Levy

Special Commodity Levy is a composite levy on certain items imported in lieu of the amount chargeable on such commodity items as a tax, duty, levy or cess or any other charge.

Other taxes

Not applicable.

6 Trade & Customs

6.1 Customs

Customs Duty

Customs Duty is levied on goods entering Sri Lanka. The rates vary by product type. (0%, 15%, and 30%)

Cess

Cess is a levy imposed on all imports into Sri Lanka and the rate of tax varies by product type.

Excise Duty

Excise Duty is imposed on tobacco, liquor and other excisable articles.

Port and Airport Development Levy

This is a tax imposed on all imports into Sri Lanka at 7.5%, unless such import has been exempted or qualified for a concessionary rate of 2.5%.

6.2 Free Trade Agreements (FTA)

In Force

- India: Indo-Sri Lanka Free Trade Agreement (ISFTA)
- Pakistan – Sri Lanka Free Trade Agreement (PSFTA)
- SAARC Preferential Trading Arrangement (SAPTA)
- Asia-Pacific Trade Agreement (APTA):

Bangladesh	Korea (Republic of)	Mongolia
China	Laos	Sri Lanka
India		

- South Asian Preferential Trading Arrangement (SAPTA)

Bangladesh	Maldives	Pakistan
Bhutan	Nepal	Sri Lanka
India		

- SAARC Agreement on Trade in Services (SATIS)
- Generalized System of Preferences (GSP)
- South Asia Free Trade Agreement (SAFTA)

Afghanistan	India	Pakistan
Bangladesh	Maldives	Sri Lanka
Bhutan	Nepal	

Concluded/Signed (pending domestic ratification)

Not applicable

In Negotiation

Not applicable

7 Tax Authority

Tax Authority

Department of Inland Revenue

Link to Department of Inland Revenue

Tax Audit Activity

There are no official rules on frequency of tax audits.

A typical tax audit commences with an advance notice to a taxpayer. The tax officials investigate various documents and conduct interviews with the taxpayer on the taxpayer's site. They may also visit business partners of the taxpayer if sufficient information is not gathered from the taxpayer.

Appeals

Every person who is dissatisfied with an assessment can make an appeal to the Commissioner General of Inland Revenue. If a taxpayer is dissatisfied with the determination of the Commissioner General, he can proceed with litigation processes, which include three steps:

i. Appeal to the Tax Appeals Commission,

ii. Appeal to the Court of Appeal,

iii. Appeal to the Supreme Court.

Tax Governance

The Sri Lankan Tax Authorities do not currently have any specific scheme to promote tax governance. All businesses are advised to periodically assess their tax environment, risks, governance, and controls relating to their various tax obligations both domestically and internationally, as appropriate to their size, complexity, and overall risk governance framework.

Current Topics for Focus by Tax Authorities

The Tax Authority has recently focused on related party transactions that give rise to transfer pricing issues

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