

SRI LANKA

The Sri Lanka tax system has been characterised by a multiplicity of taxes and levies. Yet, pursuant to the 2009 Budget, a new tax, the Nation Building Tax, has been introduced. This tax is intended to be a social contribution towards the welfare of security forces and to rebuild communities and infrastructure facilities affected by terrorism in the country. Nevertheless, it adds a further layer to the complexity of the tax system. Any simplification of the Sri Lanka tax system will require the elimination of many of the existing taxes and levies and focusing only on a few major taxes on a comprehensive base.



NATION BUILDING TAX

Nation Building Tax (NBT) has been in force effective from 1 February 2009 and is expected to be operative for a period of 2 years.

Chargeable persons	Importers, manufacturers, service providers
Tax rate	1% of the liable turnover
Threshold	Manufacturers and service providers (1) whose liable turnover for a quarter does not exceed Rs650,000; or (2) who are paying Optional Value Added Tax (VAT) for the relevant quarter, will not be liable to NBT in that relevant quarter.
Payment of tax	“Taxable period” means a period of three months commencing on the first day of January, April, July or October of any year. NBT is payable for every quarter on a self-assessment basis in 3 instalments for that relevant quarter. The tax has to be paid within 20 days from the end of each month.
Tax base	Tax base is determined as follows: <ol style="list-style-type: none"> in cases of importers, the value of the articles ascertained for the purposes of VAT in cases of any other liable persons, the amount received or receivable in respect of any transactions entered into by such persons, reduced by <ol style="list-style-type: none"> bad debts incurred; Excise Duty paid under the Excise Duty (Special Provisions) Act No 13 of 1989; and VAT paid under the Value Added Tax Act No 14 of 2002 and increased by any bad debts received in the relevant quarter
Exemptions	Certain articles and services will not be subject to NBT. The list of exemptions is given in the Act.
Credit for NBT paid	NBT paid by a manufacturer in any relevant quarters in respect of <ol style="list-style-type: none"> any article imported by it, or purchased by it from another NBT registered manufacturer, and such article is used exclusively in its business of manufacture is deductible from the relevant NBT payable by that person for such relevant quarter. Where, however, the tax credit for a relevant quarter exceeds the tax so payable for that quarter, the excess can be carried forward and set off against the tax payable for the immediately succeeding quarter. No part of the tax is refundable. For the purpose of claiming a credit for the NBT paid, the NBT registration number is required to be entered into the invoice issued by the manufacturer.
Filing of NBT return	A quarterly return of liable turnover in such form and containing such particulars as may be specified by the Commissioner General of Inland Revenue, is to be filed on or before the 20th day of the month following the end of that quarter.

INCOME TAX

Revision of personal income tax rate schedule

The personal income tax rate schedule for individuals has been revised, effective from 1 April 2009, with widened tax slabs and the new rate schedule.

Rate schedule for resident individuals for 2009/2010:

Income (Rs)	Rate (%)	Cumulative Tax (Rs)
1 – 300,000(*)	Nil	Nil
300,001 – 700,000	5	20,000
700,001 – 1,100,000	10	60,000
1,100,001 – 1,500,000	15	120,000
1,500,001 – 2,000,000	20	220,000
2,000,001 – 2,500,000	25	345,000
2,500,001 – 3,000,000	30	495,000
3,000,001 and above	35	

(*) Non-residents are not entitled to this threshold of Rs 300,000

Withholding tax on interest from deposits with banks or financial institutions by individuals

The current rate of withholding tax (WHT) on interest derived from fixed deposits and savings accounts held by individuals with banks or financial institutions will be revised as follows:

From 1 April 2009		Prevailing	
Total Income (Rs)	WHT Rate (%)	Total Income (Rs)	WHT Rate (%)
Up to 300,000	0	Up to 300,000	0
300,001 to 1,000,000	2.5	300,001 to 600,000	2.5
More than 1,000,000	10	More than 600,000	10

Income tax exemptions

Exemption from income tax is granted effective from 1 April 2009 with respect to the following:

- Interest on loans granted by Lady Lochore Fund to government employees.

- Interest or any trade profits derived from the sale of any foreign currency denominated sovereign bonds issued by the Sri Lanka government to any non-resident person or licenced commercial bank in Sri Lanka (effective from 21 October 2008).
- Royalty paid to a singer on the broadcasting/telecasting of any song of that singer.
- 50% of the profits arising to a writer from the sale of a book of such writer within the first year from the date of printing of such book.
- 50% of the profits arising to a producer of a drama from staging of that drama within the first year.
- Current tax holiday of 5 years applicable to the profits and income arising from any upgraded cinema is extended to 7 years.

Tax rate changes

- Profits and income derived from the export of tea packets (with not more than 1kg per packet) will be liable to tax at a rate not exceeding 15%.
- Income from employment of a professional employee working for any company or partnership which is exempt from income tax (and engaged in providing professional services to a person or partnership outside Sri Lanka for payment in foreign currency) will be chargeable to income tax at a rate not exceeding 20%, provided that such employee is also paid in foreign currency.

VALUE ADDED TAX

VAT rate changes

The standard VAT rate of 15% was reduced to 12% effective from 1 January 2009.



New VAT rate schedule

Category	Rate	Items
Zero Rate	0%	Exports, specified international services, services provided to overseas buyers by garment buying houses registered with Textile Quota Board (TQB) <i>(Deemed exports companies registered with TQB or Export Development Board (EDB) qualify for the suspension scheme)</i>
Optional Rate	5%	Applicable to any persons or partnerships registered under Optional VAT Scheme
Standard Rate	12%	Items not included under luxury rate, and other than exempt or excluded supplies
Luxury Rate	20%	Liquor, air conditioners, refrigerators, washing machines, TC sets, TV antennas, cameras, motor vehicles (other than three wheelers, lorries, trucks and passenger buses), hotel services and hiring of halls for wedding receptions and other receptions

Threshold for VAT registration

Effective from 1 January 2009, the registration threshold has been increased as follows:

1. Normal Regime
 - (1) Rs650,000 per taxable period (one month or three months as the case may be), or
 - (2) Rs2.5 million per annum
2. Optional VAT
 - (1) not exceeding Rs3 million per annum

Restriction of input VAT credit

The credit for input tax paid at the rate of 20% is restricted to 12%. Previously, the restriction limit was 15%.

Extension of VAT suspension scheme to providers of certain specific services

The issue of the suspended tax invoices by deemed exporters who are registered with EDB has been extended to deemed exporters who provide certain specific services.

Time period for claiming input tax credits on imports

The period of claiming credit for input tax paid on goods at the point of importation is extended up to 2 years from the date of importation as per customs declaration. Previously, the claim could be claimed only within 12 months from the date of importation as per such customs declaration issued.

VAT exemptions

Description	New
Supply of locally manufactured tea machinery	Exempt
Supply of locally manufactured surgical gauze used for surgeries	
Importation of buses on or after 9 July 2008 for replacing those destroyed by terrorist activities	
Importation of brass sheets, brass ingots, thread, dyes, paraffin wax and shellac for the manufacture of brassware by the National Craft Council with the approval of the Ministry of Rural Industries and Self Employment Promotion	
Importation of solar panel modules and accessories for the generation of solar power energy under specified HS Code Nos.	
Importation of chemical naphtha by the Ceylon Petroleum Corporation to be supplied to Ceylon Electricity Board for the generation of electricity	
Construction of work relating to Gama Naguma, Maga Naguma, Samurdhi, and community irrigation projects which are carried out through the participation of the community	
Raw materials required for the manufacture of foot-wear, hand bags, belts and other leather goods	
Supply or import of sugar, dhal, potatoes, onions, dried fish and chillies	

Increase of VAT rates

The following VAT rate changes apply from 1 January 2009:

Description	New Rate	Previous Rate
High-tech mechanical equipment or any machinery used for the manufacture of ticket issuing machinery	12%	5%
Jewellery	12%	5%
Petrol	12%	5%

Economic service charge (ESC)

1. **Commencement of chargeability:** Chargeability arises when the turnover exceeds the threshold of Rs7.5 million. The grace period granted to manufacturing companies and reopened factories in which the provision for ESC chargeability was to commence after 36 months from the commencement of commercial operations has been withdrawn.
2. **Maximum charge:** The upper ceiling of ESC payable per quarter by any persons or partnerships has been increased from Rs15 million to Rs30 million effective from 1 April 2009.
3. **Definition of turnover:** The definition of turnover is amended to include the business of financial institutions and pawnbrokers, and to exclude the proceeds from the sale of any foreign currency denominated sovereign bonds issued by the Sri Lanka Government.

