

Circular to Clients

Proposed Tax Reforms

New tax proposals made to Income Tax (IT) & Value Added Tax (VAT) to be implemented subject to formal amendments to Inland Revenue Act No.24 of 2017, and Value Added Tax Act No.14 of 2002 based on the notice issued by the Prime Minister's Media Division on 31st May 2022.

01. Personal Income Tax

- Reduction of the personal relief from Rs. 3 million to Rs. 1.8 million effectives from 1st of October 2022.
- Revision of Personal Income Tax Rates effective from 01st of October 2022.

| Taxable Income | Rate |
|-----------------------|-------------|
| First 1.2 million | 4% |
| Next 1.2 million | 8% |
| Next 1.2 million | 12% |
| Next 1.2 million | 16% |
| Next 1.2 million | 20% |
| Next 1.2 million | 24% |
| Next 1.2 million | 28% |
| On the balance | 32% |

02. Withholding Tax

- Making APIT/ Withholding Tax on Employment Income (PAYE) mandatory for all taxpayers exceeding the personal relief of Rs. 1.8 million per year of assessment effective from 01st of October 2022.

- Making AIT/ Withholding Tax mandatory for all taxpayers and consider AIT on interest of individual taxpayers and dividends as final payments effective from 01st of October 2022.

Deduction of AIT will be at the following rates.

- a. Interest -5%
 - b. Dividends – 14%
 - c. Rent – 10% on rent exceeding Rs. 100,000 per month
 - d. In all other cases – 14%
- Imposing Withholding Tax on service payments exceeding Rs. 100,000 per month made to individuals such as professionals at the rate of 5% effective from 01st of October 2022.
 - Re-introduction of relief on interest income of Rs. 1.5 million for senior citizens effective from 01st of October 2022.

03. Corporate Income Tax

- Tax Rate changes from 01st of October 2022.
 - The standard Corporate Income Tax rate will be increased to 30% from 24%.
 - The concessionary Corporate Income Tax rate will be increased to 15% from 14%.
- Making dividends paid by a resident company to non-resident person liable to income tax effective from 01st April 2023.
- Removal of additional deduction granted for expenses related to Marketing and Communication effective from 01st April 2023.
- Revisiting the definition given for “multi-national companies” under the Inland Revenue Act, No. 24 of 2017 effective from 01st April 2023 to improve the clarity of the definition.
- Removing the following income tax holidays other than projects or undertakings commenced prior to 31th March 2023.
 - Ten-year tax exemption period for an undertaking that sells construction materials recycled in a selected separate site established in Sri Lanka to recycle the materials which were already used in the construction industry.
 - Five-year tax exemption period for any business commenced on or after 01st April 2021 by an individual after successful completion of vocational education from any institution which is standardized under TVET concept and regulated by the Tertiary and Vocational Education Commission.

- Seven-year tax exemption period for an undertaking commenced by a resident person in manufacturing of boats or ships in Sri Lanka and received or derived any gains and profits from the supply of such boats or ships.
- Five-year tax exemption period for any undertaking commenced on or after 01st January 2021 by any resident person who constructs and installs the communication towers and related appliances using local labour and local raw materials in Sri Lanka or provides required technical services for such construction or installation.
- Any undertaking for letting bonded warehouses or warehouses related to the offshore business, in Colombo and Hambantota ports, if such person has invested in such warehouses effective from 01st April 2021.

04.Value Added Tax

- Increasing VAT rate from 8% to 12% with effect from 01st of June 2022 (Extraordinary Gazette No. 2282/26 dated 31st May 2022)
- Decreasing VAT threshold from Rs. 300 million per annum to Rs. 120 million per annum effective from 01st of October 2022.
- Reviewing VAT exemption schedule and removal of unproductive exemptions based on the economic benefits.
- Removal of the VAT exemption on Condominium Residential Apartments effective from 01st of October 2022.
- Removal of zero percent VAT rate granted on the supply of services by a hotel, guest house, restaurant or other similar businesses providing similar services and imposition of 12% tax rate on the same effective from 01st of October 2022.

05.Telecommunication Levy

- Increase the Telecommunication Levy from 11.25% to 15% with effect from 01st of June 2022.

06.Betting and Gaming Levy

- Increase Annual Levy for carrying on the business of gaming from Rs. 200 Mn to Rs. 500 Mn effective from 01st of January 2023.
- Increase Annual Levy for betting 01st January 2023.
 - From Rs. 4 Mn to Rs. 5 Mn when it is carried on through agents
 - From Rs. 0.6 Mn to Rs. 1 Mn when it is carried on using live telecast facilities.
 - From Rs. 50,000 to Rs. 75,000 when it is carried on without the use of live telecast facilities

- Increasing the rate of the levy on Gross Collection from 10% to 15% effect from 01st January 2023.

If you require any further clarifications on the matters discussed therein, please do not hesitate to Contact,

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