



2022 Interim Budget

Tax Proposals

August 2022

KPMG Sri Lanka





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For the clients of KPMG Sri Lanka

The Honourable President Ranil Wickremesinghe in his capacity as the Minister of Finance of Sri Lanka presented his inaugural budget in the Parliament by way of an interim Budget to cover the remaining four months of the Year 2022. As per the President the interim budget is in order to prepare the basic foundation for changing the economic trajectory of Sri Lanka and for the formulation of a national economic policy to adapt to the new world order. On this foundation the process of creating a new economy will be initiated by presenting a comprehensive set of proposals in the Budget 2023.

He also reiterated that the Government's aim is to create a surplus in the primary budget by the Year 2025, stabilize the economic growth rate and establish a solid economic foundation by the Year 2026.

This publication has been compiled on a high-level review of the proposals in the limited time available to us. We may also emphasize that these proposals need to be enacted by Parliament for legal enforcement.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

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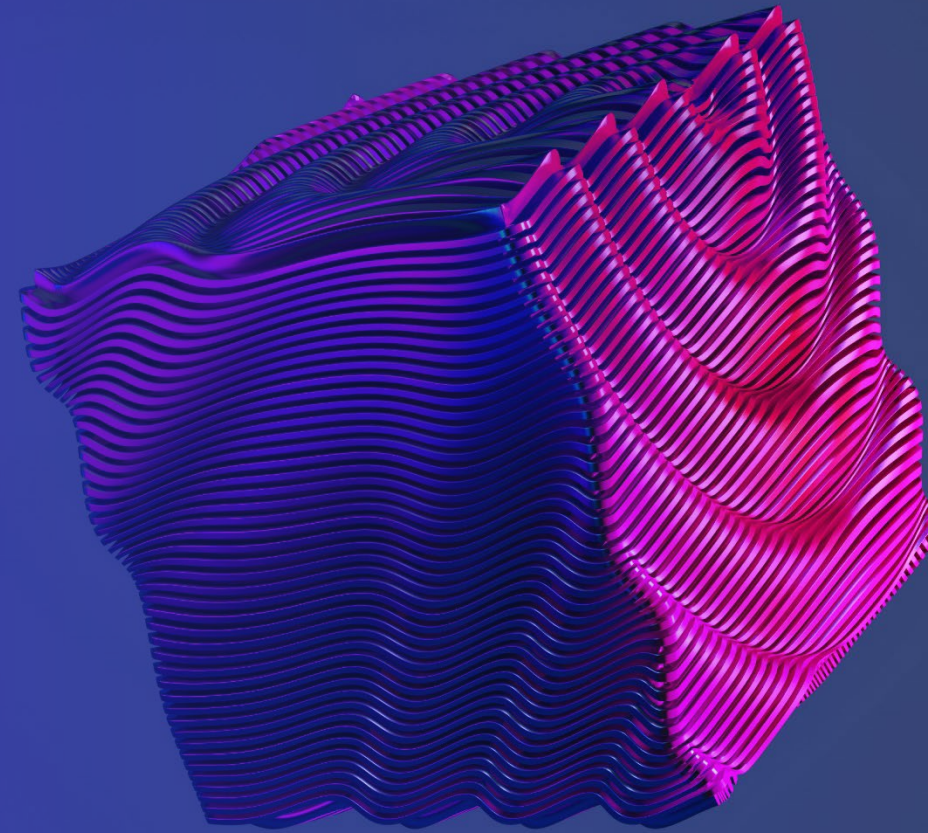
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Tax Proposals – Interim Budget Speech and Press Release dated 31 May 2022

The Interim Budget Speech contains merely a few specific tax proposals. However, the President averred the following at paragraph 7 of the page 5 of the Budget Speech indicating that the tax proposal contained in the release to press by then Prime Minister's Media Division on 31 May 2022 will be legislated and implemented.

“7.1 A number of tax reforms pertaining to Income Tax, Value Added Tax (VAT), Telecommunication Levy and Betting and Gaming Levy have been already approved to be implemented. Some of these tax proposals have already been implemented.

7.2 In addition, the VAT rate will be increased to 15 percent from the current rate of 12 percent with effect from 1st September 2022.

7.3 Most revenue proposals introduced in May 2022 will be effective from 1st October 2022”

(Page 5, Paragraph 7 – Interim Budget Speech)

Accordingly, this alert sets out, both specific proposals referred to in the budget speech, as well as the content of the Press Release dated 31 May 2022 by the Media Division of Prime Minister's office.

01

Corporate Income Tax

Corporate Income Tax - Proposals in the Press Release

Proposals to be implemented w.e.f. 01 October 2022

Tax Rate

The standard corporate income tax rate is proposed to be increased to 30%.

Currently, the applicable standard corporate income tax rate is 24%.

The concessionary income tax rate is proposed to be increased from 14% to 15%.

The concessionary rate of 18% applicable on gain and profits from manufacturing and the higher rate of 40% applicable on gains and profit from betting and gaming and manufacture and sale or import and sale of any liquor or tobacco products remain unchanged.

This proposal will introduce complexity in computing the income tax liability for Year of Assessment 2022/23 for corporates.

Proposals to be implemented w.e.f. 01 April 2023

Removal of Tax Holidays

Removal of the following tax holidays granted under the Inland Revenue (Amendment) Act No.10 of 2021. This will not have any impact on the projects or undertakings commenced prior to 31 March 2023.

- 10-year tax exemption period granted for an undertaking that sells construction materials recycled in a selected separate site established in Sri Lanka to recycle the materials used in the construction industry.
- 05-year tax exemption period granted for any business commenced on or after 1 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.
- 07-year tax exemption period granted for an undertaking commenced by a resident person for manufacturing of boats or ships in Sri Lanka and receiving or deriving any gains and profits from the supply of such boats or ships.
- 05-year tax exemption period granted for any undertaking commenced on or after 1 January 2021 by any resident person who constructs and installs communication towers and related appliances using local labour and local raw materials in Sri Lanka or providing required technical services for such construction or installation
- Any undertaking for letting bonded warehouses or warehouses related to offshore business, in Colombo and Hambantota ports, if such person has invested in such warehouses effective from 1 April 2021

Corporate Income Tax - Proposals in the Press Release

Proposals to be implemented w.e.f. 01 April 2023

Dividend Payment to non-resident

It is proposed to impose income tax on dividend payment by a resident company to a non-resident person.

At present, the dividend paid by a resident company to a member who is a non-resident person is exempt under Section 9 read in conjunction with Schedule 3 of the Inland Revenue Act No.24 of 2017.

Other Changes

Marketing and Communication Expenses

Remove additional 100% deduction applicable for Year of Assessment 2022/23 granted for marketing and communication expenses incurred in calculating the income from a business.

The additional deduction is provided under Schedule 06 to the Inland Revenue Act No 24 of 2017 which is applicable for three Years of Assessment from the Year of Assessment 2021/22 has been reduced to two Years of Assessment.

Redefining “Multi-national Companies”

Revisit the definition given for “multi-national companies” under the Inland Revenue Act, No. 24 of 2017 to improve the clarity of the definition.

Currently, the Act defines a “multi-national company” to “mean a company that is part of a group of associated companies, with business establishments in two or more countries” for the purpose of income tax exemption on interest on any deposit opened and maintained in foreign currency in any domestic bank, if such deposit is maintained to cover its import expenditure for that Year of Assessment, on or after 1 April 2021.

02

Personal Income Tax

Personal Income Tax - Proposals in the Press Release

Proposals to be implemented w.e.f. 01 October 2022

Individual tax relief threshold (personal relief threshold)

It is proposed to reduce the existing personal relief threshold from LKR 3 mn to LKR 1.8 mn.

The personal relief was increased from LKR 1.2 mn (personal relief of LKR 500,000 and employment relief of LKR 700,000) to LKR 3 mn w.e.f. 1 January 2020.

Tax Slabs

The individual income tax slabs are proposed to reduce to LKR 1.2 mn from existing LKR 3 mn.

Tax Rates

It is proposed to charge personal income tax at the following progressive rates of 4%, 8%, 12%, 16%, 20%, 24%, 28% and 32% for each LKR 1.2 mn slabs.

Currently, the rates applicable are 6%, 12% and 18% on LKR 3 mn slabs. Therefore, the highest progressive rate increases to 32% from the present 18%.

This proposal will introduce complexity in computing the income tax liability for Year of Assessment 2022/23 for individuals.

Proposed Personal Tax Rates

Taxable Income (LKR)	Rate
First 1.2 mn	4%
Next 1.2 mn	8%
Next 1.2 mn	12%
Next 1.2 mn	16%
Next 1.2 mn	20%
Next 1.2 mn	24%
Next 1.2 mn	28%
On the balance	32%

Individual personal relief of LKR 1.8 mn to be deducted in calculating the taxable income.

Current Personal Tax Rates

Taxable Income (LKR)	Rate
First 3 mn	6%
Next 3 mn	12%
On the balance	18%

Individual personal relief of LKR 3 mn to be deducted in calculating the taxable income.

03

Withholding Tax (WHT)

Withholding Tax - Proposals in the Press Release

Proposals to be implemented w.e.f. 01 October 2022

Advance Personal Income Tax (APIT)

APIT/ withholding tax on employment income (PAYE) mandatory for all taxpayers exceeding the qualifying relief of LKR 1.8 mn per Year of Assessment.

Advance Income Tax (AIT)

AIT/ withholding tax mandatory for all taxpayers. The proposed rates are as follows;

Item	Rate
Interest	5%
Dividend	14%
Rent	10% on rent not exceeding 100,000 per month
All other cases	14%

Prior to 01 January 2020, withholding tax was applicable on investment returns such as dividend, interest, discount, charge, natural resource payment, rent, royalty, premium or retirement payment or on payments such as winnings from a lottery, reward, betting or gambling. The above proposal reintroduces mandatory AIT/withholding on payments to resident.

Payments considered as final withholding

Interest received by individual taxpayers and dividends which have been subjected to withholding tax/ AIT are to be considered as a Final Withholding Payment.

Recipient of Final Withholding Payments have no further tax liability over and above the amounts that have been withheld.

Relief for Senior Citizens

Re-introduction of relief on interest income of LKR 1.5 mn for senior citizens.

A relief was available to senior citizens until 31 December 2019 on the interest income derived from a financial institution upto LKR 1.5 mn for each Year of Assessment.

Withholding Tax on Service Payments

Re-introduction of withholding tax on service payments exceeding LKR 100,000 per month made to individuals such as professionals, at the rate of 5%.

During the period prior to 01 January 2020, WHT on service payments was at the rate of 5% on the payments exceeding LKR 50,000 per month.

04

Value Added Tax

Value Added Tax – Proposal in the Budget Speech

Proposal to be implemented w.e.f. 01 September 2022

VAT Rate

The rate of VAT on the import and supply of goods or supply of services is revised upwards from 12% to 15% w.e.f. 01 September 2022.

The rate was reduced to 8% from 15% w.e.f. 01 December 2019. Subsequently it was increased to 12% w.e.f. 01 June 2022.

Value Added Tax – Proposals in the Press Release

Proposals to be implemented w.e.f. 01 October 2022

Threshold

The VAT threshold of LKR 300 mn per annum or LKR 75 mn quarter will be reduced to LKR 120 mn per annum w.e.f. 01 October 2022.

The VAT threshold of LKR 12 mn per annum was increased to LKR 300 mn per annum w.e.f. 01 January 2020

Proposals to be implemented w.e.f. 01 April 2023

Other VAT Exemptions

Reviewing of VAT exemption schedule and removal of unproductive exemptions based on the economic benefits.

As at present, there is no additional information available. The Bill to amend the VAT Act will reveal the details.

VAT on Condominium Residential Apartment

VAT exemption on Condominium Residential Apartments will be removed.

At present supply of residential accommodation including supply of condominium units are exempt from VAT. (Lease or rent of residential accommodation is liable).

The proposal is to charge VAT only on supply of condominium units, whereas the supply of other residential accommodation will continue to be exempt.

05

Betting & Gaming

Betting & Gaming – Proposals in the Press Release

Proposals to be implemented w.e.f. 01 October 2022

- Increase the Annual Levy for carrying on the business of gaming from LKR 200 mn to LKR 500 mn
- Increase Annual Levy for betting
 - From LKR 4 mn to LKR 5 mn when it is carried on through agents.
 - From LKR 0.6 mn to LKR 1 mn when it is carried on using live telecast facilities
 - From LKR 50,000 to LKR 75,000 when it is carried on without the use of live telecast facilities
- Increase in the rate of the levy on Gross Collection from 10% to 15%.

The above changes will be introduced via an amendment to the Betting & Gaming Levy Act No. 40 of 1988.

06

Import Levies

Customs - Proposals in the Budget Speech

Duty Concession

Food packaging industry

A 50% import duty concession is offered on import of advanced new technology equipment/accessories for food packaging.

Manufacture of electric bicycles

It is proposed to provide tax concessions for imported accessories or parts required in the manufacture of electric bicycles locally with more than 50% value addition.

07

Tax Administration

Tax Administration - Proposals in the Budget Speech

Tax Registration

It is proposed to make it mandatory for all residents above 18 years of age irrespective of their annual income and tax-free thresholds to register for tax.

Sri Lanka Customs

It is proposed to implement the recommendations in the Final Report of the “Presidential Commission of Inquiry into Sri Lanka Customs” to strengthen the corporate, administrative, and operational processes of Sri Lanka Customs to discharge its responsibilities effectively and efficiently.

08

Miscellaneous

Miscellaneous - Proposals in the Budget Speech

Revision of Laws

It is proposed to introduce amendments to the following laws *inter-alia*;

- Excise Ordinance
- Finance Act
- Foreign Exchange Act

Details pertaining to the amendments were not provided in the Interim Budget Speech.

09

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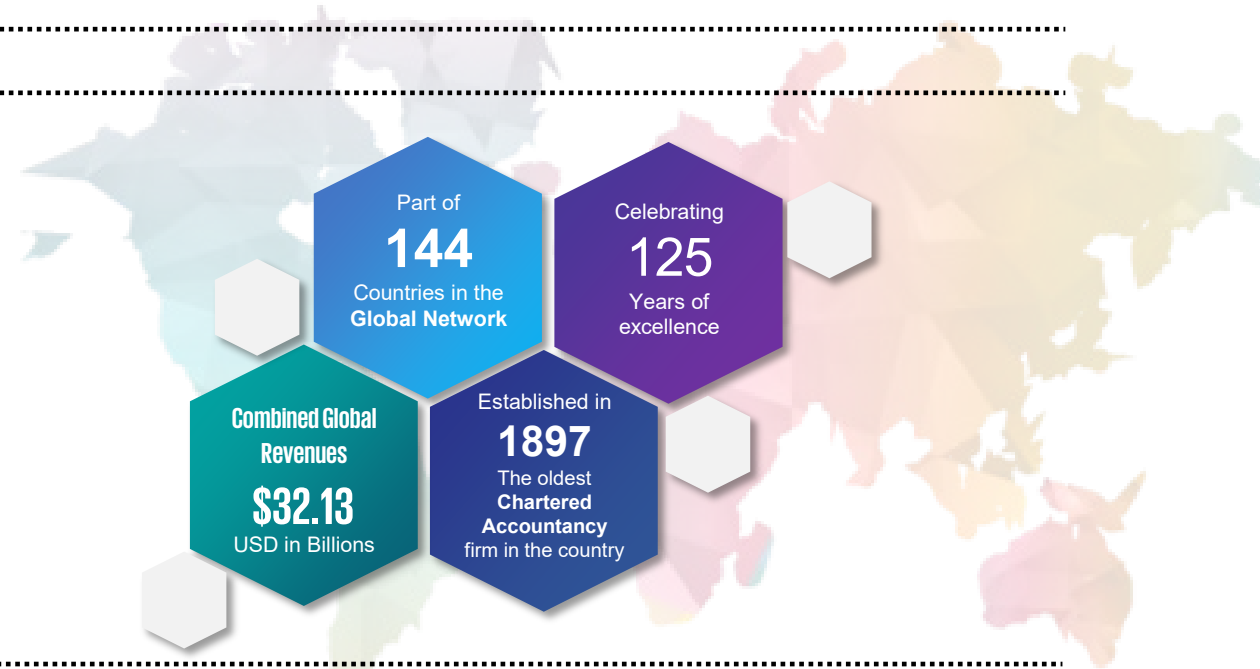
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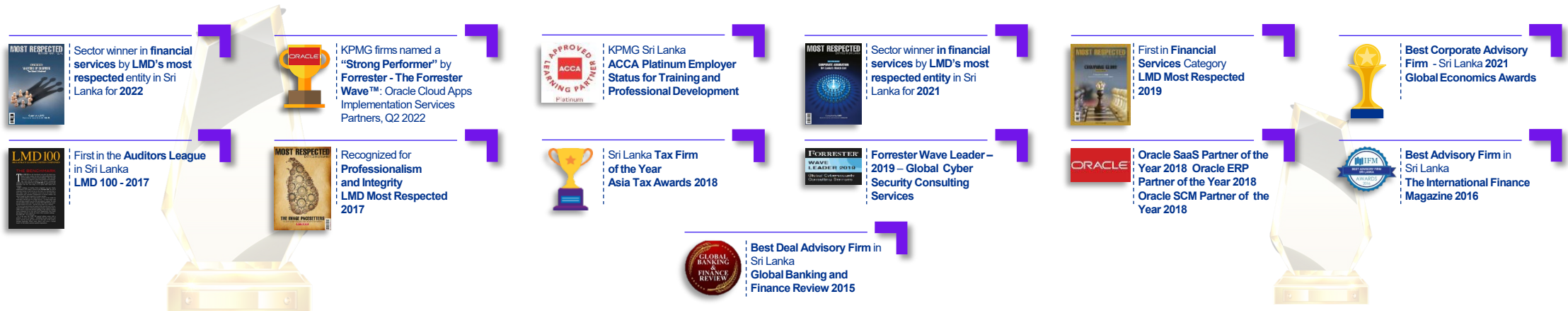
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1,000+
People locally

19
Partners



KPMG Recognitions





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