



Budget Analysis 2024

Road to Recovery



KPMG Sri Lanka



Economic Impact	06
Sectoral Overview	15
Key Tax Proposals - Direct Tax	46
Key Tax Proposals - Indirect Tax	52
Key Proposals - Sri Lanka Customs & Excise Department	55
Other Proposals	59
Tax Fact Sheet	61
About KPMG Sri Lanka	70

Budget Analysis 2024

Road to Recovery



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

Tel +94 - 11 542 6426
Fax +94 - 11 244 5872
+94 - 11 244 6058
Internet www.kpmg.com/lk

13th November 2023

For the clients of KPMG Sri Lanka

The Hon. President Ranil Wickremesinghe in his capacity as the Minister of Finance of Sri Lanka presented the 78th Annual National Budget at the Parliament.

His Excellency the President mentioned that the Budget is focused on constructing the future of the country. The Budget presents diverse proposals focusing on investments & development, enhancing the national branding of the country, strengthening international relations, development of tertiary education, stabilization of the finance sector, relief for certain sectors, etc.

The estimated budget deficit is 7.6%. The Budget 2024 estimates a Tax to GDP ratio of 12.1%. The President reiterated that the Government's aim is to tighten the tax administration in order to enhance the tax collection.

The highlights of the Government's economic and fiscal proposals are presented in this edition of the KPMG Budget Analysis.

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.

Chartered Accountants

KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

C. P. Jayatilake FCA
Ms. S. Joseph FCA
G. A. U. Karunaratne FCA
R. H. Rajan FCA
A.M.R.P. Alahakoon ACA

T. J. S. Rajakarier FCA
W. K. D. C. Abeyrathne FCA
R.M.D.B. Rajapakse FCA
M.N.M. Shameel FCA
Ms. P.M.K. Sumanasekara FCA

W. W. J. C. Perera FCA
S. T. D. L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA
Ms. C.T.K.N. Perera ACA
R.W.M.O.W.D.B. Rathnadiwakara FCA

Principals: S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. F.R Ziyad FCMA (UK), FTII



Budget 2024 at a Glance



[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)

A Balanced Budget Based on the Concept of “*Samajeewikathaa*”

As per the Hon. Finance Minister, Budget 2024 is to construct future of the country based on Buddhist Philosophy and several proposals formulated in keeping with the concept of “*Samajeewikathaa*”. The concept emphasizes on “balancing” (i.e align the expenses with the income). He also emphasized that the country as a whole had been living beyond its means, 75 Years post independence and that the country’s borrowings have been made for consumption as opposed to investments.

Key Budgetary Estimates for 2024

Estimated total revenue and grants for the year 2024 is LKR 4,127bn, whereas the total estimated expenditure stands at LKR 6,978bn. Therefore the budget deficit with bank capitalization stands at LKR 2,851bn. The budget estimates tax revenue/ GDP ratio of 12.1% for the year 2024 compared to 9.2% based on revised estimates for year the 2023. The same ratio calculated for the year 2022 stood at 7.3%

The estimated total tax revenue of LKR 3,820bn consists of LKR 2,235bn taxes from goods and services, LKR 1,080bn from income tax and LKR 505bn taxes from external trade. The budget does not disclose the breakup of the detailed tax revenue sources apart from the above division.

Investment and Development

Creating investment zones, an Infrastructure Corporation, development of tourist destinations including Punarin City, development of Trincomalee as a major economic center, allocation of funds for Hingurakgoda International Airport, development of the second phase of the Central Express way, etc, have also been addressed in the budget.





Budget 2024 at a Glance



[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)

Incentives and Reliefs

- Budget has provided reliefs for public sector employees, pensioners, disabled persons, kidney patients and elderly citizens.
- Budget also provides incentives for SMEs via a concessionary loan scheme.
- Estate dwellers, farmers, low-income families occupying houses under various urban development programmes also stand out to benefit with regard to land and housing rights from the budget proposals.

Tax Reforms

The Budget Speech reflects that due to the circumstances and negotiations with the International Monetary Fund (IMF) and the creditors, it is challenging to reduce the personal income taxes of the top 20% of the population contributing to such tax collection. The emphasis would be to collect taxes via progressive direct taxes from personal as well as corporate income taxes and from other primary taxes including VAT and Excise Duties on tobacco, alcohol and fuel.

Both VAT rate and base is to be increased from January 2024. Hon. President also pointed out that distorting taxes such as Social Security Contribution Levy and Special Commodity Levy could be phased out once sufficient revenue is gathered via VAT collection enabling the overall tax target to be met.

It is proposed to link the Taxpayer Identification Number to bank current account, building plans, ownership of motor vehicle and land in order to strengthen the tax administration. This also includes integration of relevant institutions with Department of Inland Revenue.

Penal provision with regard to filing tax returns and provision of information have been included to strengthen the tax administration.





Economic Impact



> Executive Summary

Faced with an unprecedented economic crisis, Sri Lanka defaulted on its foreign debt in April 2022. As part of its efforts to restore macroeconomic stability, from around mid-2022, the country began taking multiple policy actions that included raising policy rates, increasing taxes, raising energy prices, tightening import restrictions, and offering higher exchange rate flexibility.

Since then, the Sri Lankan economy has seen some positive developments: National Consumer Price Index-based Headline (YoY) Inflation fell to 0.8 percent in September 2023, compared to 73.7 percent recorded during the same month in 2022; gross official reserves reached USD 3.6 billion in August 2023, compared to USD 1.9 billion in December 2022; and in October 2023, the Sri Lankan government and the IMF reached a staff-level agreement on the first review under the Extended Fund Facility agreement which, once approved, would release the second tranche of around USD 330 million in funds, following the first tranche of around USD 333 million received in March 2023.

However, the economic outlook for Sri Lanka remains cloudy. The economy continued to contract in 2023, declining 7.9 percent year-on-year (YoY) in H1 2023. Critical reforms such as revisions to tax rates and changes in utility pricing mechanisms have resulted in the public paying higher taxes and higher electricity prices, further tightening the wallets of its citizens. Furthermore, there are concerns that reducing policy rates and potential exchange rate adjustments (as guidance rates are lifted) could contribute to inflationary pressure. Moreover, reaching an agreement about debt treatment in a manner that supports debt sustainability would be crucial in supporting macroeconomic stability. To this end, Sri Lanka cleared the local-currency segment of the domestic debt optimisation plan in September 2023 and the government is continuing talks with bilateral creditors to restructure its external debt, even as Export-Import Bank of China agreed to a preliminary deal regarding debts to China.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



The Sri Lankan economy continued to contract in H1 2023, although mitigated by an uptick in tourism and improving foreign remittances

The Sri Lankan economy contracted 7.8 percent in 2022 as the country faced an unprecedented economic crisis. The nation grappled with high inflation, critically low levels of foreign reserves, and shortages of essentials, including cooking gas, medicine, and fuel. Many households were plunged into poverty, with the rate of poverty rising to 25 percent in 2022 from 13.1 percent in 2021. Over 2022-23, the country began implementing structural reforms, tightening monetary policy, and undertaking domestic debt restructuring, amongst other measures, all aimed at regaining economic stability.

While these measures saw inflation drop, foreign reserves rise, and its currency appreciate, the economy continued to contract during the first half of 2023, recording a 7.9 percent YoY decline in H1 2023. The decline was steeper in Q1 2023 real GDP growth in Q2 2023 contracted 3.1 percent YoY, compared with a 11.5 percent contraction in Q1 2023. In Q2 2023, the Industry and Services sectors, which together accounted for 85.7 percent of GDP in that quarter, declined 11.5 percent and 0.8 percent, respectively, affected by a downturn in construction activities, real estate, financial services, among others. . Meanwhile, the unemployment rate rose to 5.2 percent in Q2 2023 compared to 4.6 percent in Q2 2022, while labour force participation fell to 48.6 percent from 50.1 percent during the same period, likely impacted by contractions in the service and industry sectors.

The economic contraction in H1 2023 was slightly offset by a rebound in tourism during the year, with tourist arrivals reaching over 1.1 million as of October 2023, compared with 0.72 million arrivals for the year 2022. Tourist arrivals grew 159.8 percent YoY in October 2023, rising to 109,199 from 42,026 in October 2022. Earnings from tourism as of September 2023 stood at USD 1.5 billion, the highest since 2019.

The World Bank forecasts the domestic economy to contract by 3.8 percent in 2023, compared to a more optimistic outlook from the Central Bank, which predicts the economy to shrink by 2.0 percent. The Asian Development Bank forecasts the economy to shrink by 3.0 percent in 2023 – this compares to forecasted growth of 6.3 percent in India, 7.1 percent in Maldives, 6.0 percent in Bangladesh, and 0.3 percent in Pakistan.



Source: Department of Census and Statistics

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

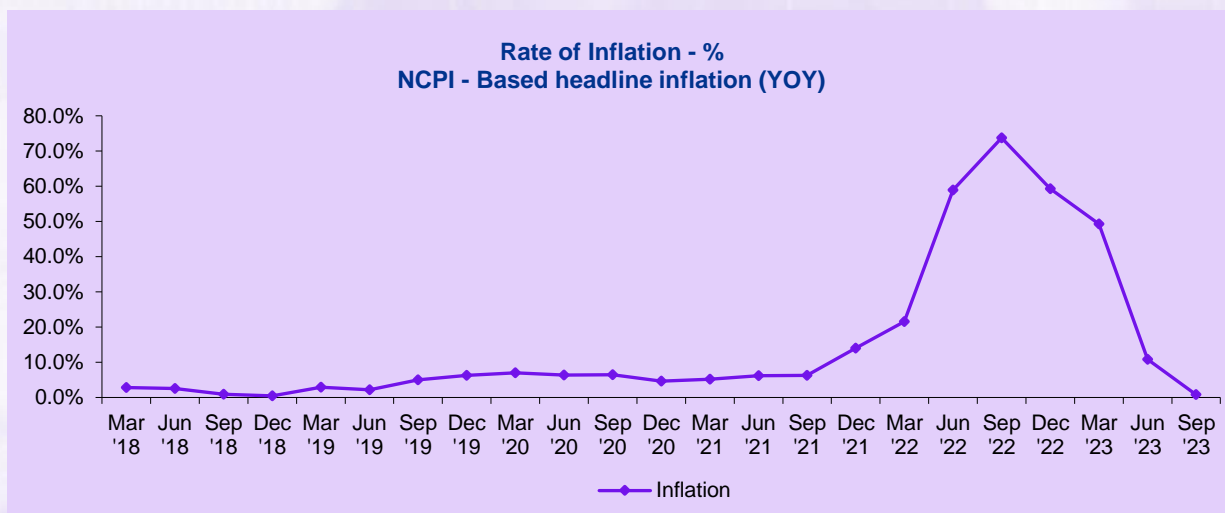
[About KPMG Sri Lanka](#)

➤ Inflation has slowed down amidst muted demand, a stronger Rupee and improving supply conditions

Sri Lanka's inflation (National Consumer Price Index-based headline inflation) decelerated in 2023, dropping to 0.8 percent in September 2023 from a high of 73.7 percent in September 2022. Improved supply conditions and muted demand have contributed to this decline in inflation (YoY), as has a favorable base effect (the index reference period was updated from 2013=100 to 2021=100), an appreciation of the Sri Lankan Rupee and the tightening of the monetary policy from 2022. Inflation fell to single digits for the first time in July 2023 since November 2021.

The country experienced food deflation (YoY) for the three months up to September 2023, with food inflation recorded at -5.2 percent in September 2023 compared with -5.4 percent in August 2023. This compares to 2022, when food inflation rose to 85.8 percent in September from 84.6 percent in August. Similarly, non-food inflation decelerated to 5.9 percent in September 2023 from 9.0 percent in August 2023.

While the Central Bank of Sri Lanka remains optimistic that inflation is set to level off in the medium-term, supported by better supply conditions and muted demand, there are concerns that depreciation of the exchange rate and easing of the monetary policy could contribute to inflationary pressure.



Source: Department of Census and Statistics

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



① The Central Bank loosened monetary policy to stimulate an economic rebound amid decelerating inflation

In April 2022, the then-newly appointed governor of the Central Bank of Sri Lanka announced the highest increase in policy rates and a severe tightening of monetary policies - the Standing Deposit Facility Rate (SDFR) was raised to 13.5 percent and the Standing Lending Facility Rate (SLFR) to 14.5 percent, an increase of 700 basis points of both rates - in an effort to dissipate inflationary pressure and support exchange rate stabilization. Following this, the CBSL announced further 100 basis point increases in both rates in July 2022 and March 2023, resulting in the SDFR reaching 15.5 percent and SLFR hitting 16.5 percent. The CBSL continued to take a tight monetary policy stance to support the deceleration of inflation after reaching a staff-level agreement with the IMF on an Extended Fund Facility agreement.

However, by June 2023, the CBSL began to ease its monetary stance as the rate of inflation decelerated, and by early October 2023, the SDFR was reduced to 10.0 percent and the SLFR to 11.0 percent, with the aim of supporting an economic rebound. Similarly, the Statutory Reserve Requirement (SRR), which had been at 4.0 percent since it was raised in August 2021, was reduced to 2.0 percent in mid-August 2023, injecting more liquidity into the financial markets.

While the CBSL expects the lowering of policy rates to accelerate inflation a little (aiming to stabilize it at 5 percent in the medium-term), there are concerns that lowering policy rates, encouraged by decelerating inflation, could lead to deficits in the country's balance of payments.

Yields on government securities have also moderated in 2023, as macroeconomic conditions showed signs of improvement and the domestic debt optimization strategy reduced their risk premium —banks and private bonds were not included in the domestic debt restructuring program. In 2022, yield rates on treasury bills rose sharply, reaching historic highs, highlighting the high-risk premium expected at the time from instruments typically considered risk-free. Given the volatility of the economy and concerns regarding domestic debt restructuring, investors opted for 91-day treasury bills, with rates surging to 33.1 percent in October 2022. Following the slight easing in the domestic economic environment, this rate fell to 17.2 percent in early-October 2023, a further decline from 18.5 percent at end-August 2023.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



⌚ A contraction in the trade deficit supported a current account surplus in H1 2023

Import expenditure declined 12.5 percent YoY over January-September 2023, falling to USD 12.3 billion from USD 14.1 billion the previous year as a result of a weakened currency and a cautious business outlook, among others. During this period, two categories of imports - intermediate goods and investment goods - both saw a dip in expenditure (14.7 percent and 19.3 percent YoY, respectively), whilst imports of consumer goods rose 4.5 percent YoY. Driven by lower export earnings from textiles and garments, total export income also dropped, albeit at the lower rate of 10.1 percent YoY to USD 9.0 billion between January-September 2023, compared with USD 10.0 billion during the same period in 2022. Thus, the trade deficit contracted to USD 3.3 billion during the first nine months of 2023, compared to USD 4.1 billion for the same period in 2022.

Workers' remittances reached USD 4.3 billion over January-September 2023, compared to USD 2.6 billion during the same period in 2022, even as registrations with the Sri Lanka Bureau of Foreign Employment rose 154.6 percent YoY to 311,269 in 2022 from 122,264 in 2021. Total departures for foreign employment during H1 2023 reached 146,885, representing a 3.0 percent YoY decline. Most workers traveled to the Middle East, and close to 60% of departures fell within the low-skilled and semi-skilled categories.

Tourist arrivals during the first nine months of 2023 saw a 93.1 percent YoY increase to 1,016,256 from 526,232 during the same period in 2022, aided by signs of economic and political stabilization. Earnings from tourism for the year till September 2023 stood at USD 1.46 billion, the highest since 2019.

A rebound in tourism, contraction of imports driven by currency depreciation and import restrictions, and a rise in foreign remittances, all contributed to a USD 674 million current account surplus in the first half of 2023.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

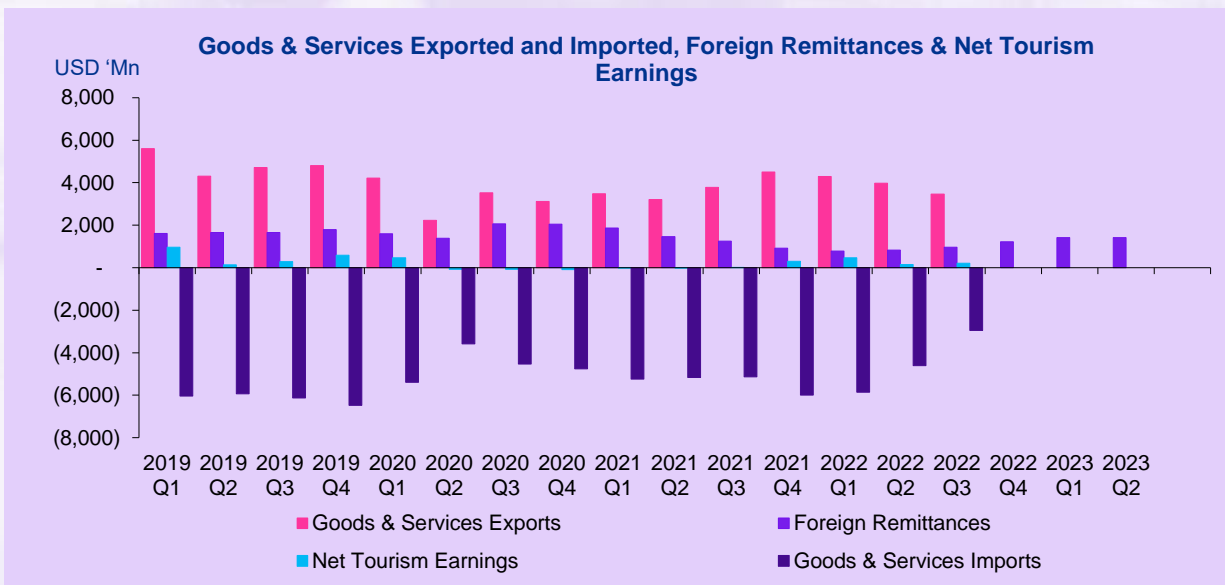
[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)

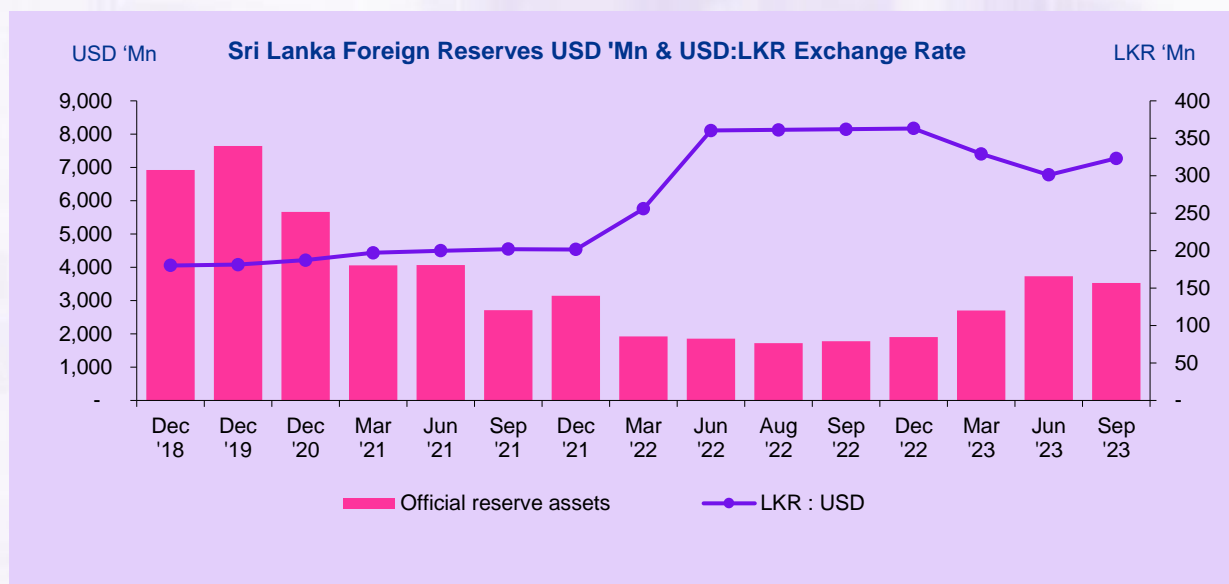


Source: CBSL



Foreign reserve accumulation improved in H1 2023, before dipping slightly in Q3 2023

Sri Lanka's foreign reserves grew steadily in H1 2023, helped by improvements in the current account balance. However, gross official reserves (including a currency swap equivalent to USD 1.3 billion with PBOC) fell marginally to USD 3.6 billion at end-August 2023 from USD 3.7 billion a month earlier, dropping for the first time in 2023 likely due to a repayment of a currency swap from the Central Bank of Bangladesh and the move to a more flexible exchange rate. Import cover rose to 2.7 months by August 2023, compared with 1.2 months in December 2022 when gross official reserves stood at USD 1.9 billion in December 2022 (including the USD 1.3 billion currency swap).



Source: CBSL

Sri Lanka saw its currency appreciate in 2023, as it switched to a largely flexible exchange rate

In early-March 2022, the exchange rate of the rupee depreciated sharply after the Central Bank intervened in the domestic foreign exchange market, permitting greater flexibility by relaxing an administered exchange rate. The value of the rupee fell to LKR 360 per USD 1 from LKR 203 within the space of a month, following which, by May 2022, the Central Bank took steps to peg the rupee at LKR 360 per USD, providing a guidance rate. A surrender rule prevented the appreciation of the currency by taking dollars out of the market to create more rupees. By August 2022, the Central Bank Governor noted that a rise in export earnings and a contraction in import expenditure had begun to ease the pressure on the exchange rate.

In March 2023, the surrender clause was reduced to 15 percent from 25 percent, and the guidance peg was increased to LKR 340 per USD. Within this context, the Sri Lankan rupee appreciated 11.2 percent YoY in the year to 27 October 2023.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



Fiscal deficit widened in the first four months of 2023, despite an increase in revenue, as the government struggled to curtail expenditure

During the period January-April 2023, total government revenue rose to LKR 820.1 billion, compared to LKR 630.9 billion the previous year. This was largely due to a 36.6 percent YoY growth in tax revenue from Income tax, Excise taxes, and Social Security Contribution Levy, among others. In particular, revenue from income tax rose 28.6 percent in the first four months of 2023 compared to the same period in 2022, as tax on employment income (Advanced Personal Income Tax and Withholding tax) was made mandatory for those earning above LKR 1.2 million per annum from the start of the year. The income tax structure was revised to progressively rise from 6 percent to 36 percent for every LKR 500,000 earned above the tax-free threshold of LKR 1.2 million per annum. Additionally, in October 2022, the Corporate Income Tax rate was revised to 30 percent from 24 percent. Other measures taken since June 2022, such as lowering the Value Added Tax registration threshold, and increasing the rate of VAT to 15 percent from 8 percent, have also contributed to the increase in revenue from VAT.

However, the government struggled to curtail its expenditure in the face of a weakened rupee, high inflation, as well as recurring expenditure. Government expenditure rose to LKR 1,645.6 billion during the January-April 2023 period, compared to LKR. 1,155.2 billion in the same period of 2022. Interest payments accounted for a large share of this, in addition to increased expenditure on social welfare schemes, including household subsidies. As such, during the same period, the budget deficit widened to LKR 524.1 billion from LKR 824.3 billion.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

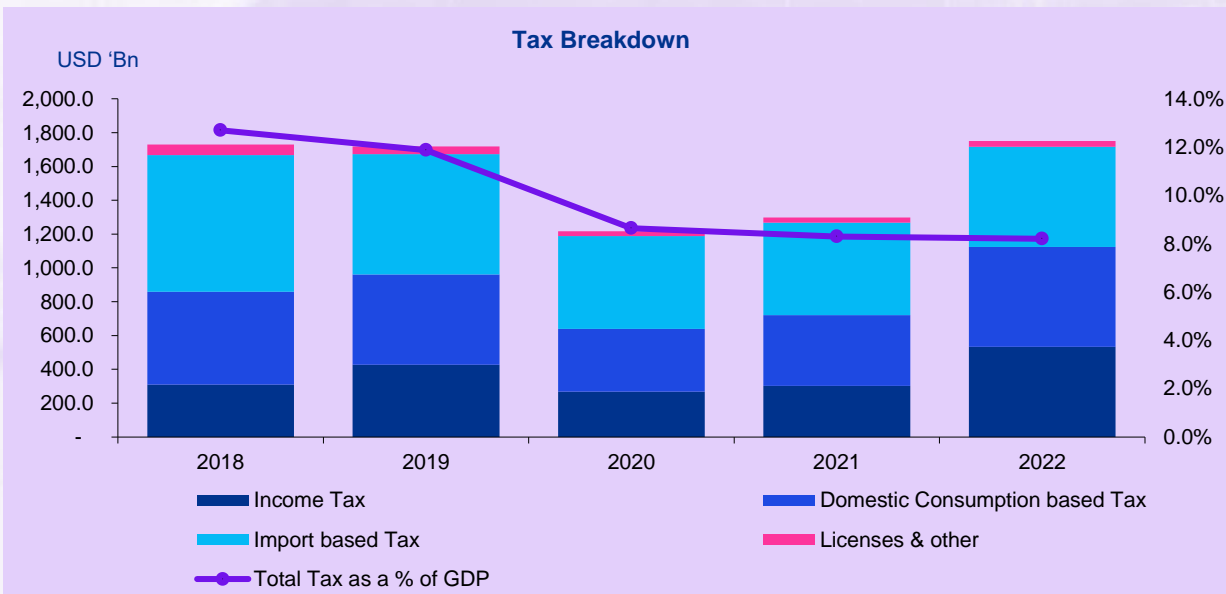
[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



Source: Ministry of finance



➤ Sri Lanka has begun the process of restructuring its debts

After Sri Lanka defaulted on its foreign debt in April 2022, the government suspended the servicing of external debts from both bilateral and commercial creditors. As a result, unpaid debt service as at 30 April 2023 stood at USD 3.7 billion in principal and USD 1.3 billion in interest. Overall, as at 30 June 2023, external debt stood at USD 36.6 billion, 40 percent of which was commercial debt. International Sovereign bonds accounted for over 80 percent of commercial debt. The World Bank and the Asian Development were the largest multilateral creditors, accounting for 28 percent of overall external debt.

Based on the Debt Sustainability Analysis developed by the IMF, Sri Lanka's public debt to GDP % stood at 128 percent in 2022, gross financing needs/GDP % at 34.5 percent, and foreign debt service/GDP % at 9.4 percent. Targets were set for each: debt to be less than 95 percent of GDP, average gross financing needs to be under 13 percent in 2027-2032, and foreign debt service to be less than 4.5 percent of GDP in each year between 2027-2032.

From September 2022 onwards, Sri Lanka has engaged with a range of bilateral creditors and is seeking a 30 percent haircut. In October 2023, China, its largest single creditor, stated that the Export-Import Bank of China had reached a preliminary deal regarding the debts relating to China.

Furthermore, in July 2023, a domestic debt optimization (DDO) strategy was approved by the Sri Lankan parliament with the goal of reducing the gross financing needs of the government by 1.5 percent of GDP in 2027-2032. Local currency-denominated treasury securities held by banks were not included in the DDO. With the DDO targeting CBSL and the superannuation fund, there were concerns raised that this would, in effect, be placing a large financial burden on the poorest workers, resulting in calls for more even sharing of the financial burden among all creditors. The country's largest pension fund, the Employees Provident Fund (EPF), is the largest stakeholder of the superannuation fund. However, the CBSL has stated that by accepting the DDO plan, income tax would be 14 percent on interest income on bonds, and the opportunity loss to EPF by 2038 would be 4 percent. This compares to the alternative option of avoiding the DDO and being subject to a 30 percent income tax (on interest income on bonds), incurring an opportunity loss of 21 percent. In September 2023, it was announced that the EPF had opted for the DDO option.

Moreover, critics have called out the government for its decision to agree with IMF conditions to restructure both domestic debt and external debt, arguing that Sri Lanka's crisis largely stems from a lack of foreign reserves to meet its external debt servicing needs. They believe domestic debt could be serviced through its local currency, and thus, domestic debt should be excluded from restructuring discussions.

➤ Staff-level agreement to pave the way for the second tranche of funding under the Extended Fund Facility Arrangement

In March 2023, the IMF approved a 48-month Extended Fund Facility (EFF) arrangement for around USD 3.0 billion and released the first tranche of USD 330 million. The program aims to restore economic stability, ensure financial stability, restore debt sustainability, improve governance, strengthen social safety nets, and rebuild international reserves, among others. It was expected that the agreement would also open doors for additional external financial support.

In October 2023, the IMF and the government of Sri Lanka reached a staff-level agreement on the review of the EFF arrangement, which, once approved, would release the second tranche (~USD 330 million). It was noted that except for expenditure arrears, the country met all other quantitative performance criteria. In addition, the country met all the other indicative targets, apart from the tax revenue target.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)


[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



Sectoral Overview

- Financial services sector
- Tourism sector
- Agricultural sector
- Information and technology sector
- Real estate sector
- Others



Sectoral Overview: Financial services sector



»» Sectoral overview: Financial services sector



» Financial service sector (1/3)

Financial Services sector proving to be resilient

- The ADB forecasts Sri Lanka's GDP to contract 3.3% in 2023, in comparison to a decline of 7.8% in 2022, before recovering to grow around 0.4% in 2024.
- Total Government Debt, which includes domestic and external debt, stood at USD 87.9 Mn as of Q2 2023, a growth of 3.8% YoY, mainly attributable to the growth in domestic debt from issuances of Treasury bonds and bills.
- In LKR terms though, the sum of domestic and external debt declined 1.2% YoY, chiefly due to the appreciation of the rupee against the US dollar by 15% in 2023.
- Further, domestic debt restructuring will see the conversion of ISBs (International Sovereign Bonds) into local currency denominated bonds, reducing the external debt burden.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

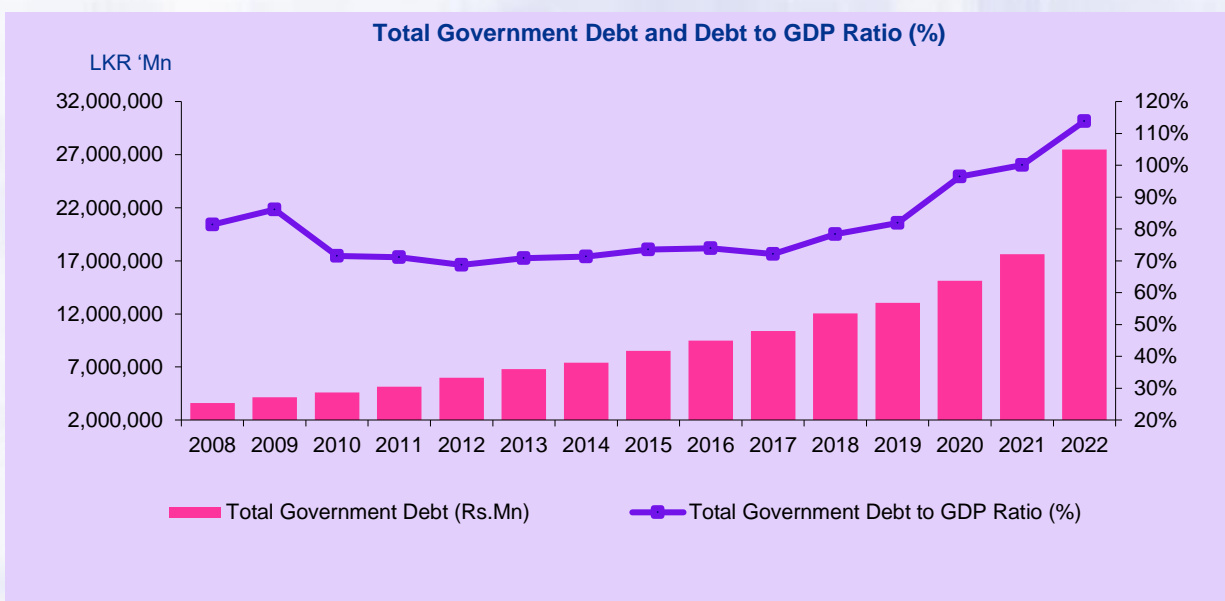
[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



Source: CBSL



»» Sectoral overview: Financial services sector



» Financial service sector (2/3)

Banking Sector ready to stage a comeback (1/2)

- Reduced Policy Interest Rates (SLFR:11%, SDFR:10%) from a peak in March 2022 (SLFR:16.5%, SDFR:15.5%) to boost Private sector credit growth, which, in turn, will fuel economic recovery and growth.
- Following the domestic debt restructuring, the Banking sector is likely to see a reversal in provisions made against ISB holdings, thereby further boosting NAV and increasing the overall value and potential of the banking sector.
- Further, reducing interest rates, improving consumer demand and overall economic activity should serve as catalysts in reducing Non-Performing Loans (NPLs), enabling banks to reduce impairment charges.
- Currently (as of Q2 2023), NPL Ratio stands at 8.7%, a rise from 8.1% in 2022 and 4.5% in 2021.
- Gross Loans and Advances of the Banking sector as of Q2 2023 declined 6.5% YoY due to slower credit growth from high interest rates.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

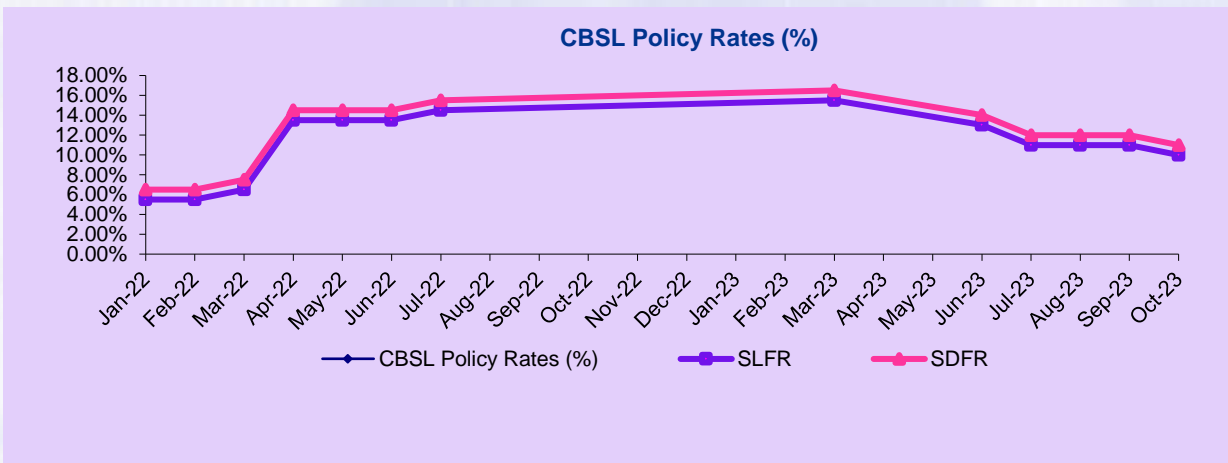
[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

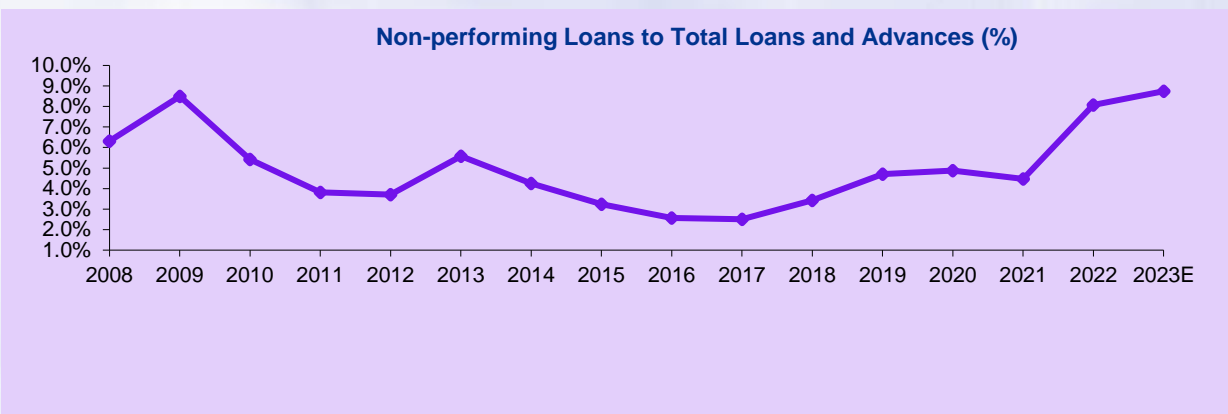
[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



Source: CBSL



Source: CBSL



»» Sectoral overview: Financial services sector



» Financial service sector (3/3)

Banking Sector ready to stage a comeback (2/2)

— Other Key Metrics

- Banking Sector Capital Adequacy Ratio stands at 16.6% as of Q2 2023, a marginal improvement from 16.0% in 2022.
- Net Interest Margin has declined to 3.4% in Q2 2023 from 4.0% in 2022.
- Profit after tax for the sector rose 47.9% YoY to LKR 89,975 Mn in Q2 2023 from LKR 60,831 Mn in Q2 2022.
- Total number of active credit cards declined 1.8% YTD and 0.1% MoM in August 2023, respectively, due to prevalent currency crisis, strict exchange rate rules and high interest rates.
- Going forward, reducing interest rates and improving foreign currency reserves should serve as catalysts in improving credit card usage.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

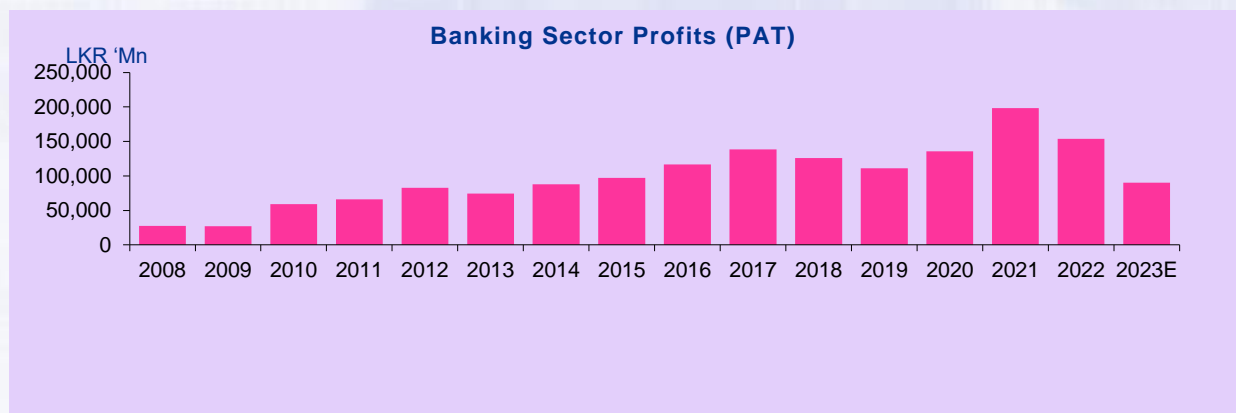
[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

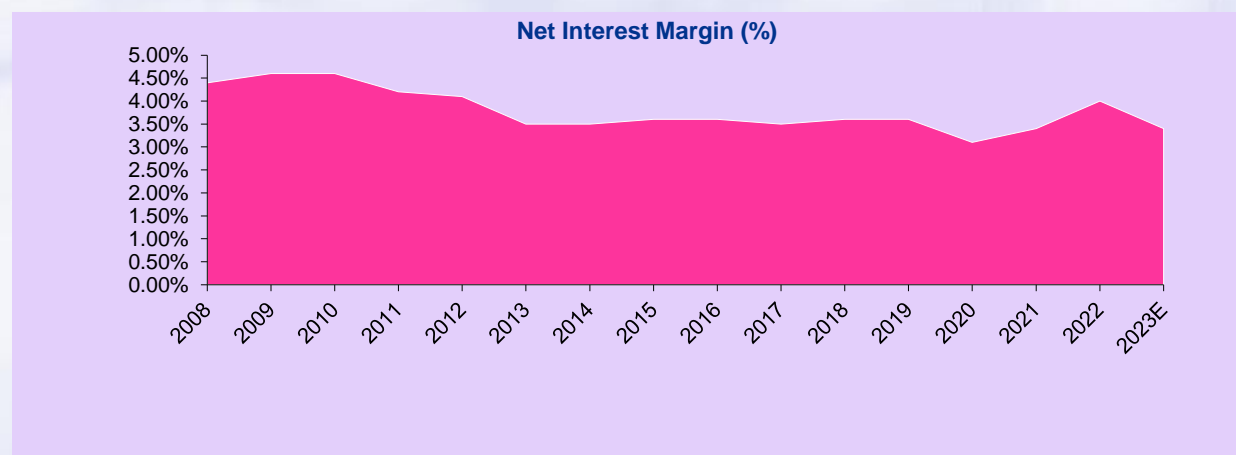
[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



Source: CBSL



»» Sectoral overview: Financial services sector



Following are the fiscal proposals stemming from the Budget Speech 2024.

⤵ Fiscal Proposals – Financial Services (1/1)

- A concessionary loan scheme approximately of LKR 30bn will be introduced for Small and Medium Enterprises (SME) with the support of Asian Development Bank. In addition to the above, a capacity development programme is also proposed to be implemented for the participating institutions.
- An amount of LKR 3,000bn is allocated for the implementation of foreign debt restructuring and settlement of International Sovereign Bonds under foreign debt restructuring.
- To build additional capital accumulation, an amount of LKR 450bn is allocated to support the capital improvement process in the banking system according to the independent asset quality review supported by IMF.
- Divest 20% of the investment in the two large State Banks either to strategic investors or to the public.
- The Banking Act will be amended in early 2024 in order to provide the legal framework to the reforms such as appointment of Chief Officers, State Bank Board Members and restrictions on individual borrowers of the state-owned banks.
- The borrowing limits are to be increased to LKR 7,350bn to aid the bank recapitalization and external debt restructuring.
- The Government to introduce Public Debt Management Act, Public Financial Management Act, Public Asset Management Act, Public Enterprise Reform Law, Investment Law and Public Private Partnership Law.
- A regulatory framework to facilitate the gig economy and e-commerce transactions including cross border transactions to cover the areas of payment system, fiscal revenue and employee welfare.
- The Government has allocated LKR 450bn of taxpayers' funds to recapitalize the state banks in the process of restructuring the State-Owned Enterprises' debts.

⤵ Tax Proposals

Unit Trust who do not furnish the information specified by the Commissioner General before 30th August following the Year of Assessment will be deemed as a Unit Trust that does not conduct an eligible business.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)





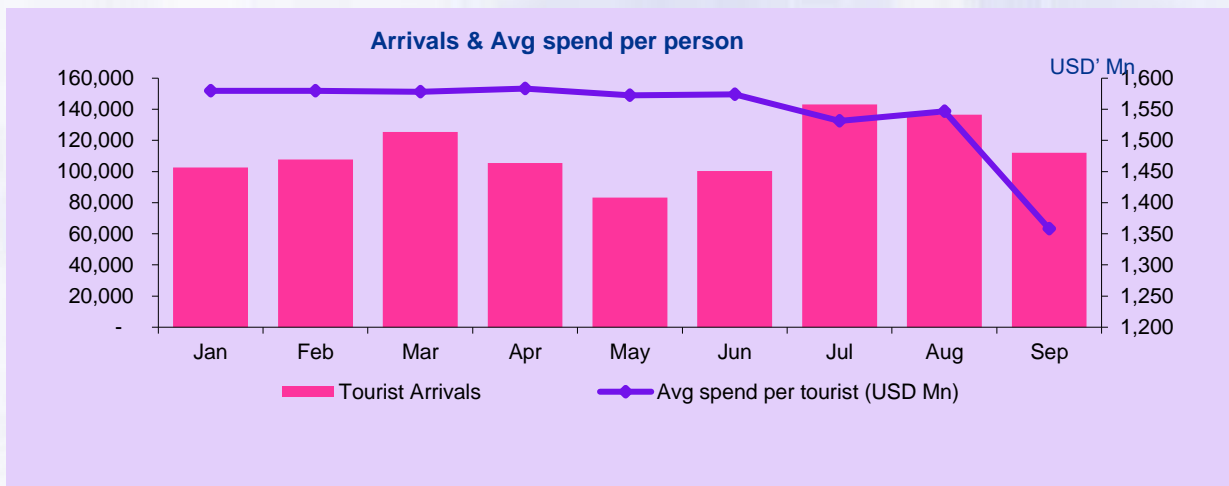
Sectoral Overview: Tourism sector



🔍 Tourism sector (1/3)

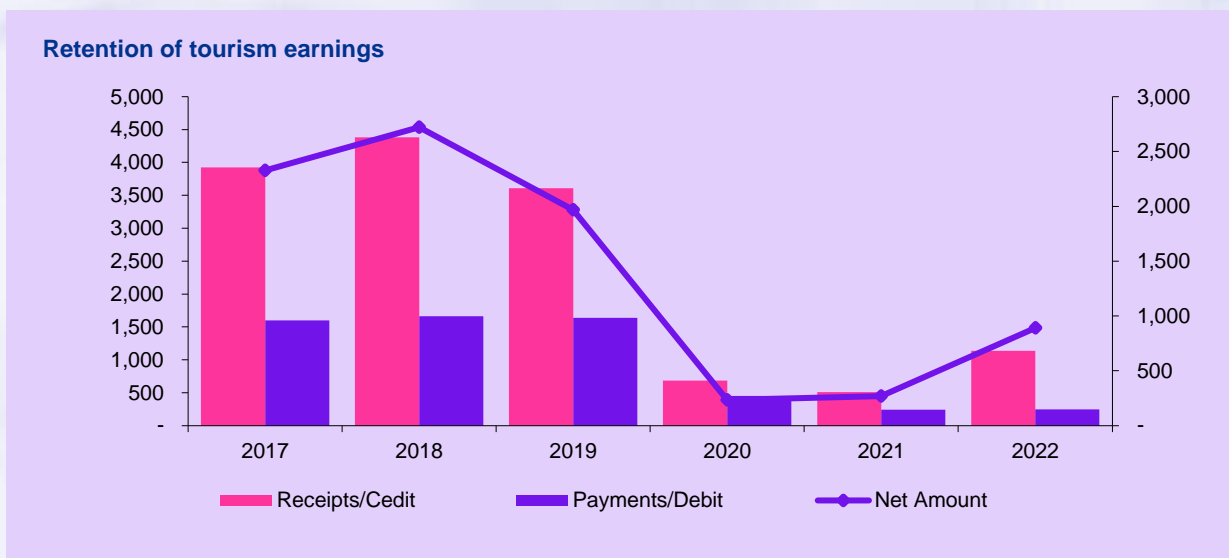
Tourism sector rallying on the back of post-pandemic boom (1/2)

- As at September 2023, Sri Lanka's tourist arrivals hit 1.02 Mn compared with 0.72 Mn arrivals in FY2022, aided by the country opening up after the pandemic and the 2022 political protests coming to an end.
- Tourism earnings reached USD 1.6 Bn YTD in September 2023 (+13.8% YoY).
- Sri Lankan tourism officials expect that the revised target of 1.55Mn arrivals for the year can be achieved due to stronger-than-expected arrivals.
- However, tourism earnings for 2023 are set to fall short of the initial forecast of USD 2.7 Bn by 15-20% if the current earnings trend continue.



Source: CBSL/ SLDTA

- In 2022, Sri Lanka retained 80% of tourism receipts as a net amount after accounting for outbound travel.
- This is due to a significant uptick in in-bound travel when compared with out-bound travel.



Source: CBSL/ SLDTA

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



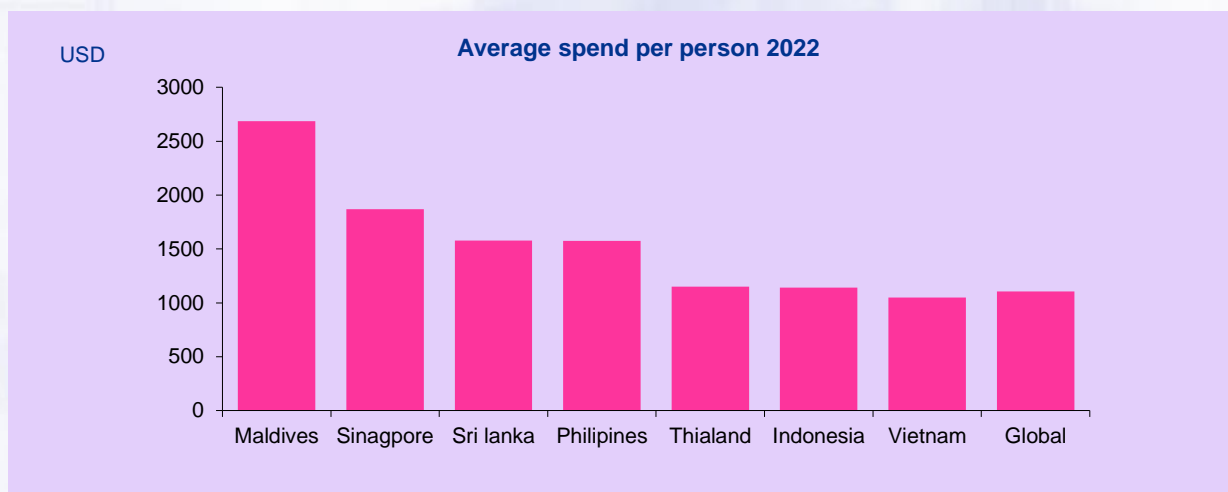
»» Sectoral overview: Tourism sector



» Tourism sector (2/3)

Tourism sector rallying on the back of post-pandemic boom (2/2)

- Average spend per tourist stood at USD 1,542 YTD (September 2023), relatively unchanged from USD 1,578 in 2022.
- This remains above the global average, reflecting positively on the opportunity for Sri Lanka to become a high spend tourism destination in South Asia.



Source: CBSL/ SLDTA

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



🔍 Tourism sector (3/3)

Positive indicators for the Tourism sector

- Expanding visa-free entry to tourists from selected countries (China, Thailand, India, Indonesia, Russia, Malaysia and Japan) is set to boost tourist arrivals from 2024.
- The SLCB (Sri Lanka Convention Bureau) aims to boost MICE (Meetings, Incentives, Conferences, and Exhibitions) tourism earnings to USD 1.4 billion and draw 10% of total tourist arrivals from this segment by 2026.
- LKR depreciation (by 65% since 2021) has made Sri Lanka a more affordable destination.
- Even with the recently introduced minimum room rate policy, Sri Lanka remains an affordable choice for tourists in comparison to peers such as Vietnam, Indonesia and Maldives.
- Sri Lanka is an attractive market for digital nomads as the cost of living is low in comparison to other countries preferred by this demographic, such as Indonesia, Malaysia, Brazil, etc.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



Source: CBSL/ SLDTA



Source: CBSL/ SLDTA



»» Sectoral overview: Tourism sector



Following are the fiscal proposals stemming from the Budget Speech 2024.

🔍 Fiscal Proposals – Tourism (1/1)

- “Visit Sri Lanka” programme is proposed to be implemented from 2024, expecting to attract at least 5mn tourists to Sri Lanka on an annual basis. Further it is proposed to adopt a new law regarding the tourism sector. LKR 1bn has been allocated for these proposals.
- The Provincial Councils are expected to play a key role in reviving the tourism sector. LKR 750mn is allocated for the development of related infrastructure.
- LKR 600mn allocated to modernise over 720 government-owned resorts and tourist bungalows which can approximately provide 3,750 rooms. This programme is expected to attract both local and foreign tourists.
- In order to make Sri Lanka a Buddhist tourist center, it is proposed to establish a Sri Lankan Buddhist Museum in several places. LKR 200mn has been proposed to be allocated for same.
- Railway stations in metropolitan areas such as Pettah, Galle, Matara, Anuradhapura, Jaffna and tourist destinations to be developed via Public Private Partnerships.
- LKR 2bn is allocated for the construction of the Hingurakgoda International Airport.
- Trincomalee to be developed as a major economic center of the country which will include large-scale agricultural programs and a coastal tourism zone.

Tourist Zone

- Proposal to develop a tourist zone surrounding Kithulgala Water rafting Area, Pinnawala Elephant Orphanage and other tourist attractions around the said areas.

Apprenticeship Training Programmes

- LKR 750mn is allocated for a training programme for job-seeking graduates in association with private institutions related to information technology.
- The Government expects to introduce similar apprenticeship training programmes to address the skill shortage in the tourism industry.

Establishment of Wellness Centers

- Local and Ayurvedic wellness to be promoted amongst tourists by establishing wellness centers in tourist hotels and resorts in accordance with the concept of “Sri Lankan Wellness”. LKR 100mn is allocated for the same.

National Branding

- LKR 100mn is allocated to focus on national branding to reclaim Sri Lanka’s status as a top tourist destination and attractive investment hub.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)





Sectoral Overview: Agricultural sector



🔍 Agricultural sector (1/3)

Sri Lanka's plantation industry to recover amidst continuing labour & cost challenges

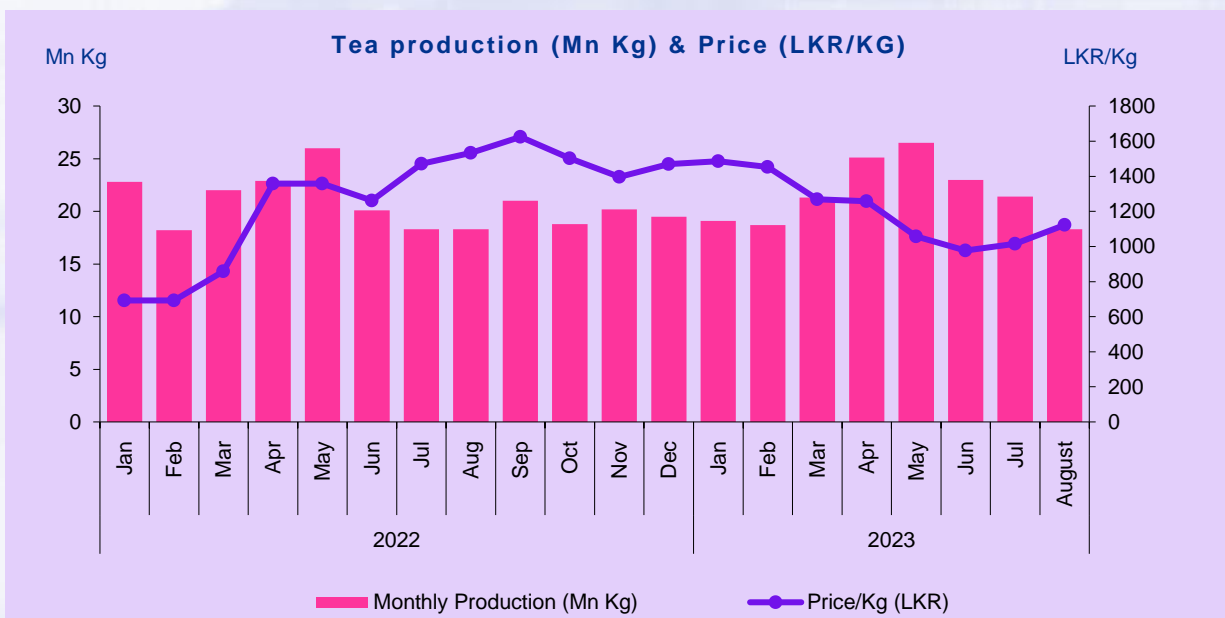
Tea

— Key Metrics

- Tea prices dropped 26.9% YoY to LKR 1,122.04/Kg in August 2023 due to the rupee strengthening and a cool down from all time highs in 2022.
- Cumulative tea production rose 2.8% YoY to 173.4 Mn Kg over Jan-Aug 2023.
- Primary challenges
- The significant jump in labour migration poses staffing challenges in both skilled and unskilled roles at the estate level - In 2022 alone, departures for foreign employment increased 37% YoY.
- Lack of interest among the younger generation to perform manual work puts added pressure on labour availability.

— Forecast

- While tea production levels are expected to recover by end-2023/2024, high input costs, of fertilizer and agro-chemicals in particular, remain a critical concern as consistently high prices could affect the country's competitiveness in the international tea market.



Source: CBSL

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



> Agricultural sector (2/3)

Revival in Sri Lanka's Paddy production: Fertiliser policy shift sparks harvest rebound

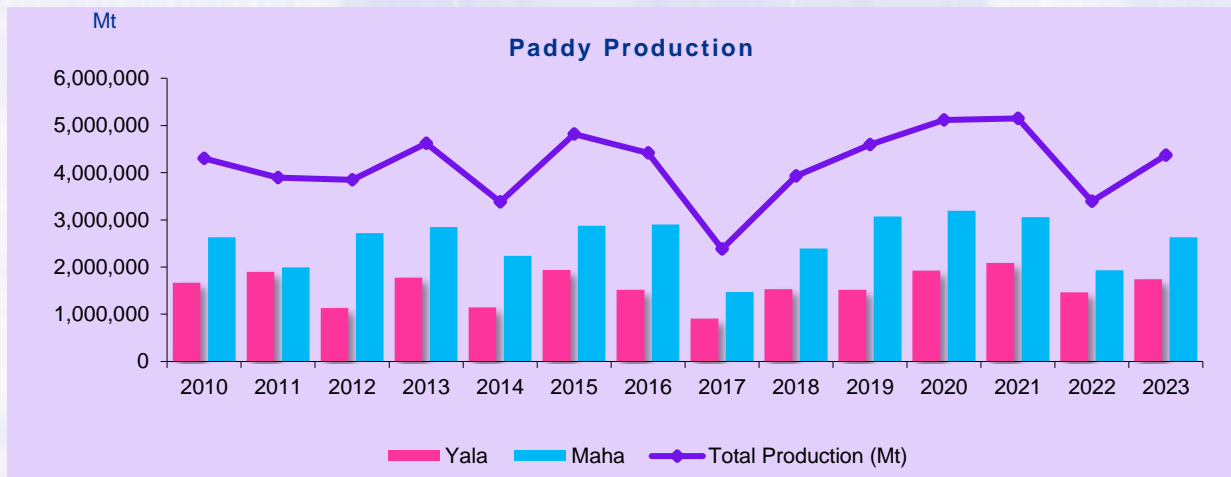
Paddy

— Key Metrics

- The Maha season in 2023 saw a 36.2% YoY increase in paddy production to 2.6 million metric tonnes due to the fertiliser policy shift allowing fertilizer imports.
- The average price of rice fell 16.9% YoY to Rs.199.5/Kg in Q2 2023 (average price of Samba, Nadu and Kekulu varieties) due to declining inflation, commercialisation (sale for profit) of 2023 crops and the go-ahead to import rice.

— Forecast

- Sri Lanka projects a rice production surplus in 2023, with the current Yala season expected to produce 1.7 Mn Mt of paddy (rough rice), up from 1.4 Mn Mt last year.



Source: CBSL

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

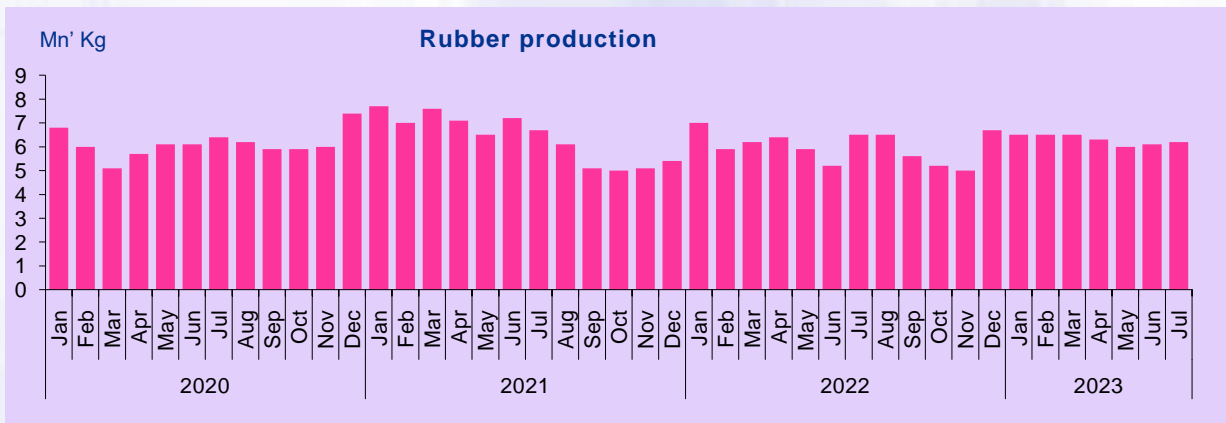
[About KPMG Sri Lanka](#)



» Agricultural sector (3/3)

Rubber production continues to be stagnant

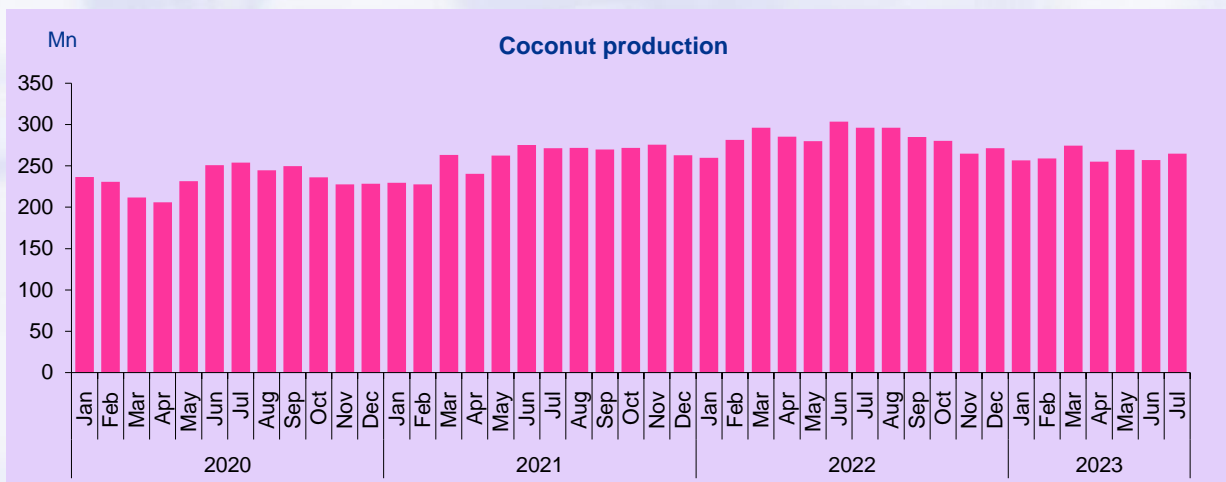
- Sri Lanka's rubber production has remained relatively stagnant over the period 2020-2023, owing to scarcity of agrochemicals and being afflicted by the circular spot leaf disease.
- Cumulative YTD production in July 2023 rose 2.3% YoY to 44.1 Mn Kg, due to the seasonal nature of the industry.



Source: CBSL

Coconut production dips from lack of fertiliser application

- Coconut production in 2023 remains slightly lower than its peak in 2022 due to lack of fertilizer, as coconut plants take 2-3 years to bring in the initial harvest.
- YTD production up to July 2023 is 8.2% lower YoY due to lower yields.



Source: CBSL

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



»» Sectoral overview: Agricultural sector



Following are the fiscal proposals stemming from the Budget Speech 2024.

🔍 Fiscal Proposals – Agriculture (1/1)

- To commence “Urumaya” Programme which focuses on the task of handing over the lands to farmers whose lands were taken over during the British colonial era.
- Establishing provincial agricultural and fisheries modernization Boards to assist the development of agricultural and fisheries sectors
- Remove legal impediments to grow other crops in bare uncultivated land in wet zone.
- 300,000 Acres to be allocated for large scale agriculture activities from other government lands.
- To improve the necessary facilities for the fish harvest coming from the North Sea an allocation of LKR 500mn will be made
- For the development of the freshwater fishing industry an allocation of LKR 200mn.
- The responsibilities of rehabilitating small tanks with the aim to increase agricultural production.

Agriculture Modernization Centres

- All Agrarian Service Centers will be upgraded as Agriculture Modernization Centers which would be a joint programme consisting of the government, private sector, farmers and agronomists. This will be implemented from the Maha season of 2023/24
 - It is proposed to allocate LKR 2,500mn
 - The purpose of this is to increase the paddy production from 3.5 metric tonnes to 8 metric tonnes per hectare

Dairy sector

- A special programme to be implemented to increase milk production with the contribution of the private sector which will increase the milk production to 20mn liters per day by the end of the project.
- Implementation of a re-finance loan scheme to meet the financial needs of those engaged in the dairy value chain.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)





Sectoral Overview: Information and technology sector



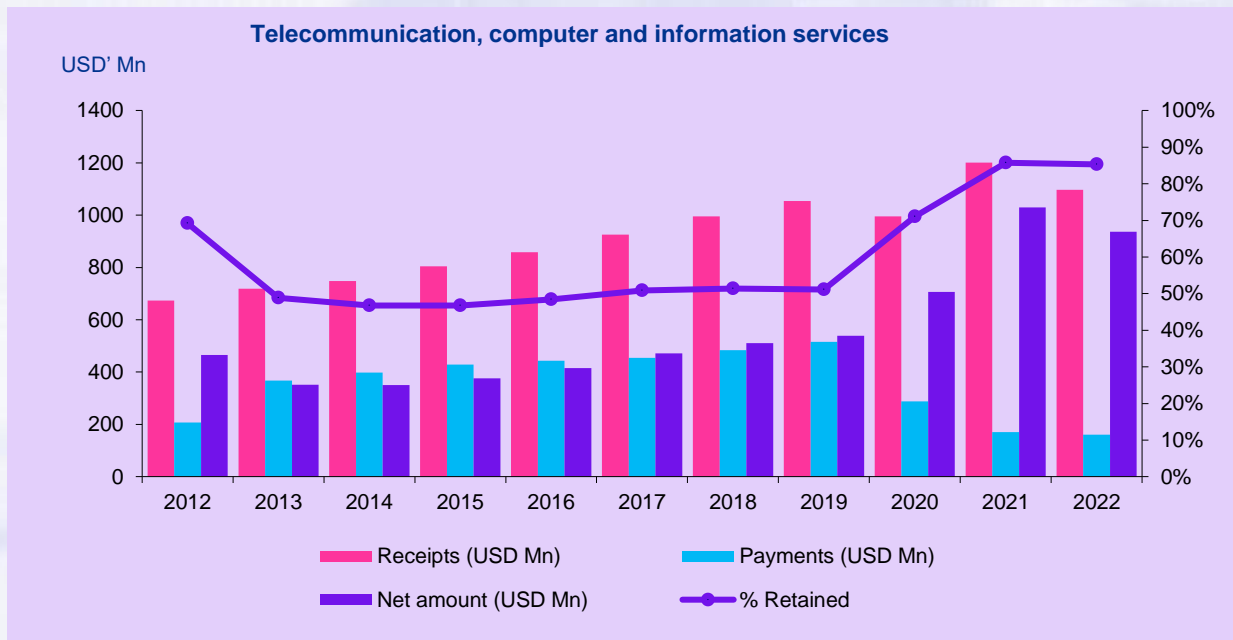
»» Sectoral overview: Information and technology sector



» Information and technology sector (1/2)

IT sector gearing up for a digital revolution (1/2)

- Sri Lanka plans to achieve a digital transformation through embracing big data, cloud and block-chain technology, health technologies, WEB 3 & AI.
- As per the Export Development Board, the export target for IT exports is USD 5 Bn by 2025, compared to USD 1.1 Bn in 2022, driven by the following key factors:
- Sri Lanka has already tested and started implementing a 5G network.
- 95% of the population has 4G coverage as of 2023.
- Domestically, there are over 500 ICT sector companies and 80 Business Process Management (BPM) companies.
- Sri Lanka specialises in software product engineering, financial services outsourcing, and other niche technologies.
- Higher level of women employed in the industry to further boost the productivity of the industry.



Source: CBSL/EDB(Export Development Board)

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



»» Sectoral overview: Information and technology sector



⌚ Information and technology sector (2/2)

IT sector gearing up for a digital revolution (2/2)

— Key Metrics

- Cumulative service exports including ICT/BPM, construction, financial services and transport and logistics grew to USD 2.3 Bn in September 2023 (up 55.7% YoY).
- In September 2023 alone, service exports amounted to USD 895 Mn (up 284.6% YoY) from USD 232 Mn in September 2022.
- Sri Lanka's IT sector represented roughly 2% of GDP in 2022, compared with peers such as India achieving 8% of GDP coming from the ICT sector. This clearly shows the depth of potential the sector can have in Sri Lanka.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

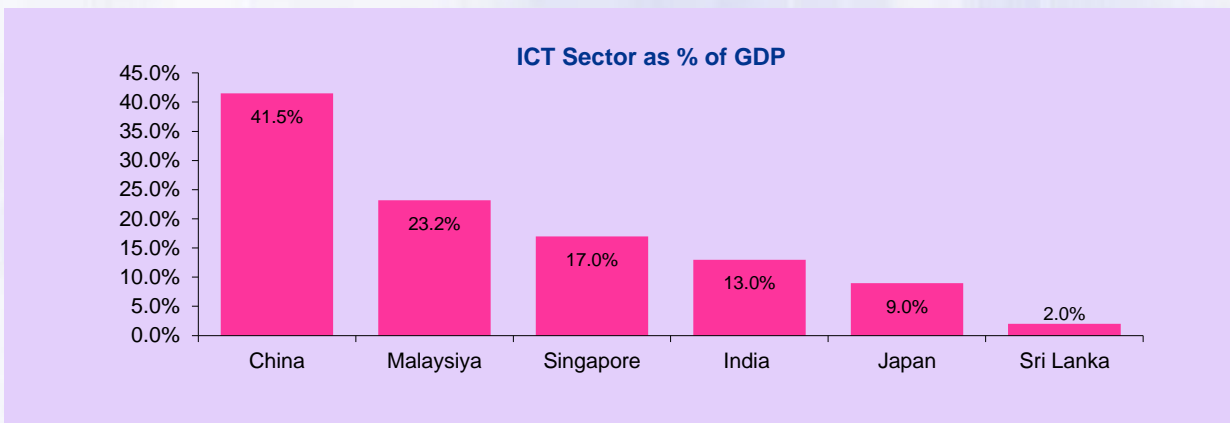
[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

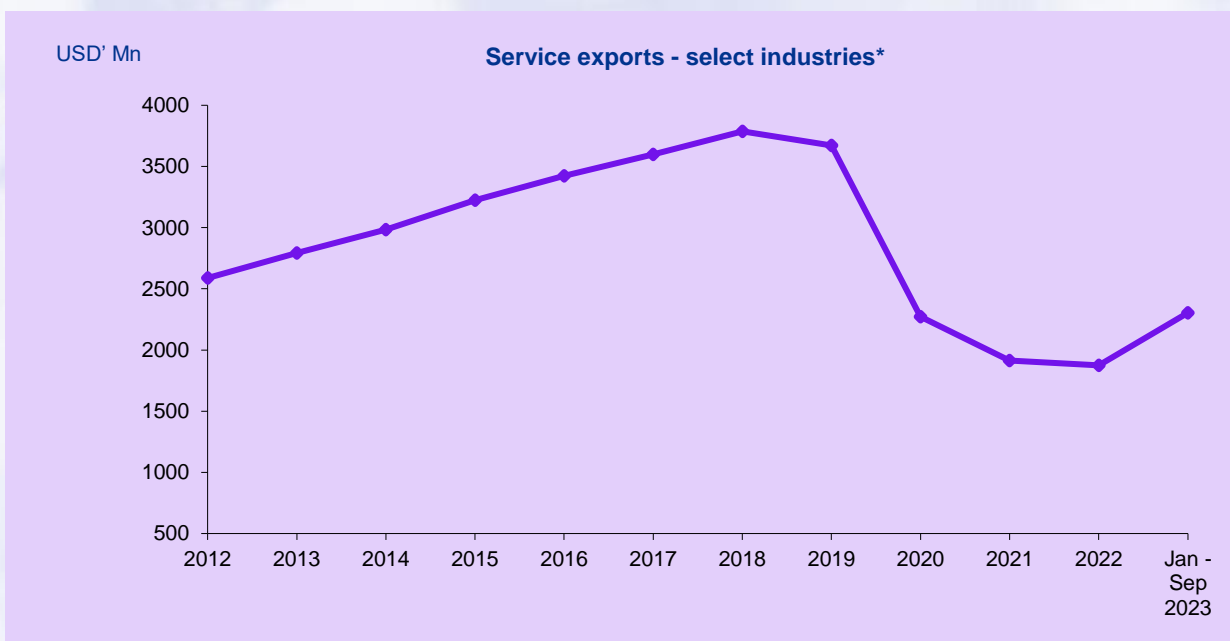
[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



Source: JETRO, Dep of Statistics Malaysia, IMDA



Source: CBSL



»» Sectoral overview: Information and technology sector



Following are the fiscal proposals stemming from the Budget Speech 2024.

➤ Fiscal Proposals – Information and Technology (1/1)

- Efforts are being made to establish a digital authority with full powers to provide the necessary leadership and direction for the digitization of the public sector.
- To restructure the organizational structure related to information technology in the public sector to facilitate the digital economy by the year 2030.
- To establish a technological innovation council to encourage technological innovation in coordination with the public sector, expert institutions, and civil society.
- Steps will be taken to establish a National Center for Artificial Intelligence to ensure an economic and social transformation, based on the latest trends in digital technology, and artificial intelligence. An amount of LKR 3bn is allocated to implement these activities.
- To introduce a simple policy and regulatory framework to facilitate gig economy and e-commerce transactions, including cross-border transactions. It covers the areas of payment system, fiscal revenue, and employee welfare.
- Development of Sri Lanka's Digital Identity by the year 2024.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)





Sectoral Overview: Real estate sector



➤ Real estate sector(1/3)

Recovery imminent in Real Estate sector, aided by interest rate reductions

— Key Metrics

- Asking price for lands in the Colombo district dropped 11.1% YTD (as at June 2023) and down 19.3% YoY from its peak in Q2 2022.
- Asking price for houses in Colombo rose slightly by 1.2% YTD and climbed 10.3% YoY in H1 2023.
- Asking price for condominiums saw no change YTD, but increased 19.0% YoY in H1 2023.
- In Q2 2023, the percentage of buyers purchasing homes for immediate living rose, while those purchasing a home for investment purposes declined compared to a year ago.
- In terms of condominiums, 47% of purchase transactions in Q2 2023 were valued below LKR 25 Mn, with most purchases being for the purpose of immediate living/future living.
- Further, the highest number of sales during the quarter was recorded in the single condominium projects category in the Colombo district, although a decline was observed in the sales of similar projects located in Gampaha and Kalutara districts compared to Q1 2023.
- The condominium property volume index declined marginally by 1.3% YoY, mainly due to increased construction costs and the taxes imposed on condominiums dampening consumer demand.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



»» Sectoral overview: Real estate sector



» Real estate sector(2/3)

Asking price of lands, Houses and Condominiums

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

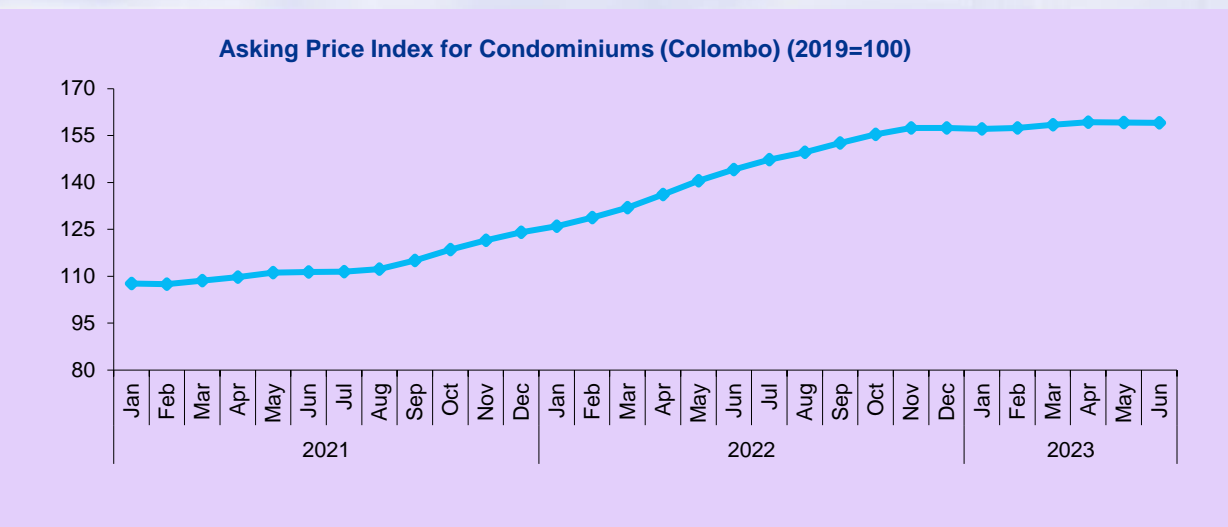
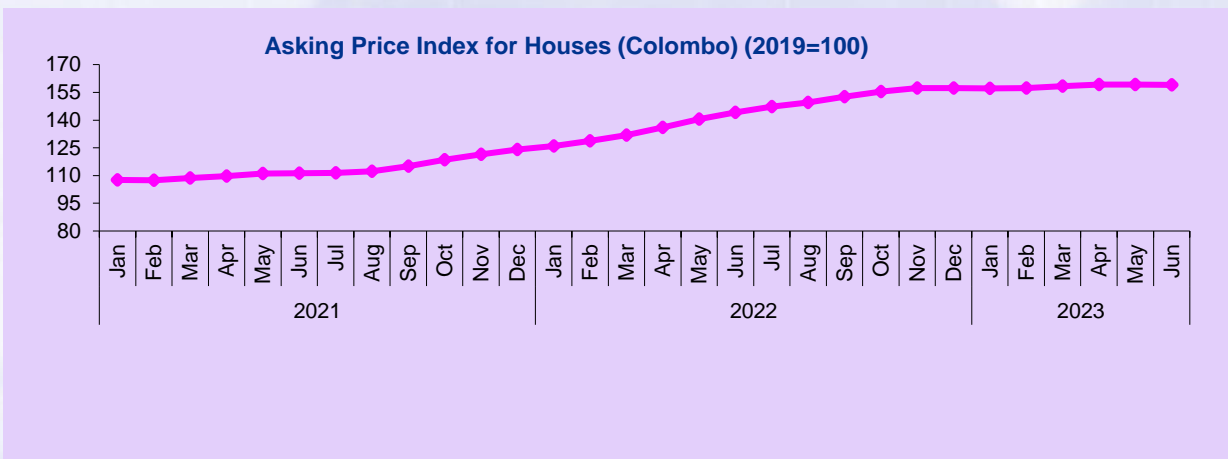
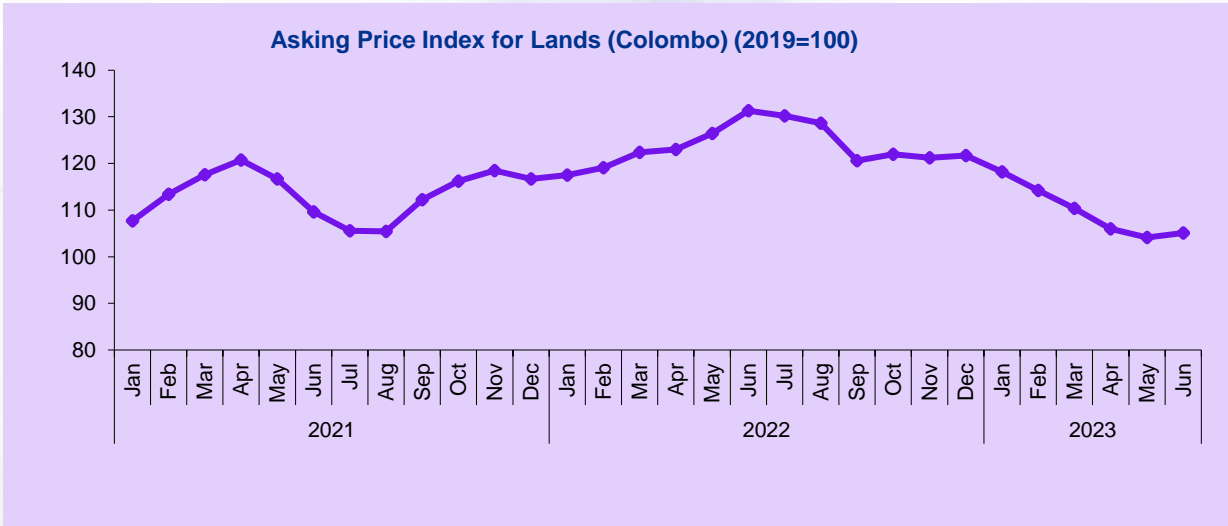
[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



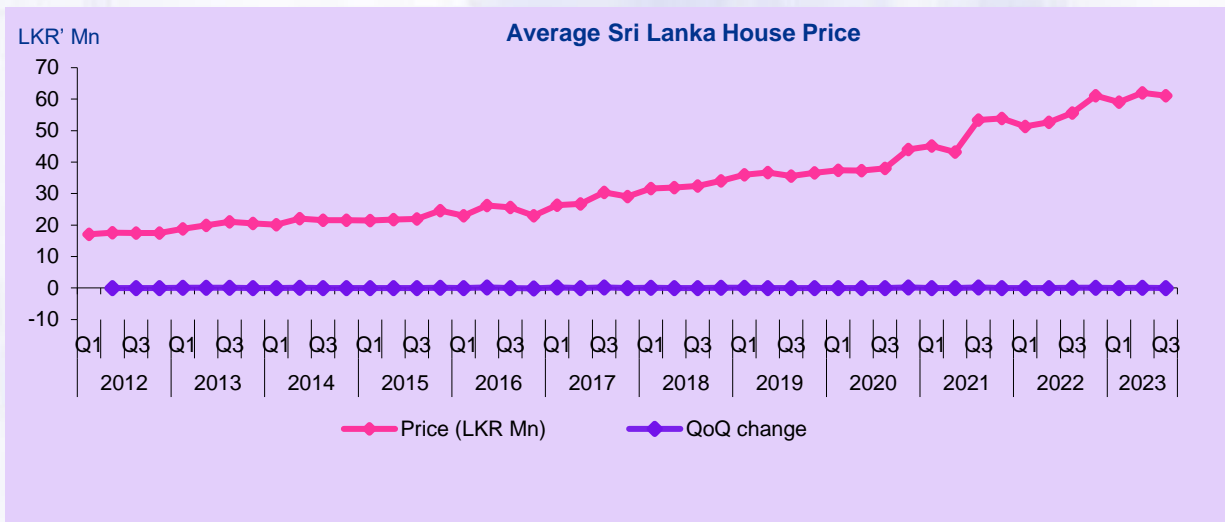
Source: CBSL



➤ Real estate sector(3/3)

Real Estate to rebound driven by lower interest rates

- The average Sri Lankan house price jumped 15.8% YoY in Q2 2023, as a result of rupee depreciation which made property investments more attractive to foreigners and expats earning dollar incomes.
- However, the average price in Q2 2023 declined 1.5% QoQ to Rs.61.1 Mn due to slowing demand.



Source: CBSL

— Forecast

- The domestic construction sector is set to rebound over the next 2 quarters, propelled by continuous policy rate reductions to currently around 10% (SDFR) and 11% (SLFR) and the easing of import restrictions.

Major indicators for growth:

- Continuing reduction in finance costs from a peak in 2022 (AWPLR reached nearly 30%).
- Improved availability of key resources, such as cement, as a result of import restrictions easing.
- Downward price trend of cement.
- Expediated completion of already started projects.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



»» Sectoral overview: Real estate sector



Following are the fiscal proposals stemming from the Budget Speech 2024.

➤ Fiscal Proposals – Real estate (1/1)

- Complete ownership of the houses constructed under various Urban Development Programmes will be handed over to the residents of those houses.
- Grant land ownership to Estate dwellers.
- Provide free land to construction companies to construct building and upon completion of the work, Government will take over those building by paying a monthly rent to the construction companies.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)





Sectoral overview: Others



Following are the fiscal proposals stemming from the Budget Speech 2024.

» Fiscal Proposals

- A group of 25 experts to be appointed to prepare a new national education policy framework.
- Steps will be taken to establish four new universities considering the current trends in the technical sector.
 - Seethawaka Science and Technology University (Lalith Athulathmudali Post Graduate Institute will be incorporated to this University)
 - Kurunegala Technology University under the Kothalawala Defence University.
 - Management and Technology University
 - International University of Climate Change
- Rules and Regulations are to be adopted to convert the private higher education institutions (NSBM) Sri Lanka Institute of Information Technology (SLIT), Horizon Campus, Royal Institute) that are currently in operation into universities.
- Provincial councils expected to establish Universities in the future.
- To establish an Education University focused on education by integrating 19 Colleges of Education.
- Bachelor of Educational Degrees will be offered to students who complete a four-year programme under an existing College of Education in accordance with the relevant standards and LKR 1bn budgetary provision for the year 2024 is allocated for this programme.
- A New Technology University will be established in Kandy under the guidance and support of the Indian Institute of Technology(IIT)University in Chennai, India.
- LKR 500mn will be allocated for the initial development activities to enhance State Universities to suit the modern era and the same is aimed at the centenary celebrations of Peradeniya University 2042.
- The Department of Allergy and Immunology, University of Sri Jayawardenepura will be upgraded to the National Institute of Allergy and Immunology, and LKR 40mn will be allocated for the next year to develop laboratories and other required facilities.
- To allow any institution in the world to establish universities in Sri Lanka once a set of powerful rules and regulations for the regulation of non-state universities are put in place and loan facilities will be provided to students studying in these non-state universities.
- A National Higher Education Commission will be established to integrate the University Grants Commission (UGC) and Tertiary and Vocational Education Commission (TVEC).
- A National Skills Commission will be established which is suitable for the prevailing challenges. Under this Commission, Vocational Training Authority, National Apprenticeship and Industrial Training Authority will be integrated.
- Vocational education institutions that are currently operating under the Central Government are to be handed over to the nine Provincial Councils and LKR 450mn is allocated for the coming year for these institutions.
- A training programme will be launched for job-seeking graduates in association with private institutions related to information technology and LKR 750mn is allocated for this purpose.
- LKR 150mn allocated to the Sri Lanka Foundation for the necessary technical and physical modernization projects for conducting training courses and to deliver services.
- Develop a national programme to enhance English literacy in Sri Lanka. The aim of this programme is to provide English literacy to all by 2034 and LKR 500mn is allocated to start this ten-year programme.
- Reintroduce the Suraksha Student's Insurance Scheme and all school students will be entitled to this insurance coverage.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



»» Sectoral overview: Health (2/5)



Following are the fiscal proposals stemming from the Budget Speech 2024 .

➤ Fiscal Proposals

- Under the “Aswesuma” programme the monthly allowance paid to persons with disabilities and kidney patients to be increased from LKR 5,000 to LKR 7,500.
- A separate institution to be set up for the procurement of medicines upon conducting a detailed study of the government's medicines procurement process.
- An investment of LKR 75mn will be allocated in medical and health research by strengthening the infrastructure and laboratory facilities.
- Upgrade the facilities of the National Drugs Quality Assurance Laboratory
- Provide necessary facilities to further expand the international market for indigenous medicines, food supplements, medicinal cosmetics and herbal ingredients made from traditional medicinal recipes.
- An Allocation of LKR 100mn is provided for the establishment of wellness centers in tourist hotels and resorts to provide local and Ayurvedic wellness to tourists

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



Following are the fiscal proposals stemming from the Budget Speech 2024.

🔍 Fiscal Proposals

Initiative to Reform the Institutional and Legal Framework for Promotion of Investment

- Establishing a “National Economic Commission” which would oversee the institutional framework that integrates the functions of the following institutions:
 - Investment Development Board
 - Export Development Board
 - Industrial Development Board
 - Enterprises Development Authority
- To establish the “Infrastructure Corporation” with a proposed allocation of LKR 250mn. New investment zones to be established in Hambantota, Jaffna, Trincomalee, Bingiriya, and Kandy. These specific investment promotion zones will come under the purview of the “Infrastructure Corporation”.

Simplified process for investors

- LKR 100mn is allocated to enhance the automation of functions of all Government agencies providing services to investors and linking with relevant approval or licensing Authorities.

National Branding

- LKR 100mn is allocated to focus on the national branding and to reclaim Sri Lanka’s status as a top tourist destination and an attractive investment hub.
- Government will develop and implement a national supply policy to harness the benefits of rapid growth and industrialization in the South Indian region and to elevate Sri Lanka as a regional logistics hub.

Logistics

- Government will develop and implement a national supply policy to harness the benefits of rapid growth and industrialization in the South Indian region and to elevate Sri Lanka as a regional logistics hub.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



Following are the fiscal proposals stemming from the Budget Speech 2024.

➤ Fiscal Proposals

- Steps will be taken to expand the international market for exports; as follows.
 - To establish free trade agreements with Thailand, Indonesia, Bangladesh and China.
 - To expand the free trade agreement with India into a comprehensive economic and technological cooperation agreement.
 - To join the Regional Comprehensive Economic Partnership.
 - To link with the common system of trade preferences of the European Union.
 - To implement the National Single Window which will bring all border management agencies into a single digital platform and facilitate trade regulatory documentation in a seamless and timely manner.
 - To encourage government institutions to fully implement the acceptance of electronic payments and digital documents.
 - To modernize the custom laws according to global best practices.
 - To accede to the Madrid Convention which will make the registration of trademarks quick and easy.
- A new joint investment law will be enacted establishing a National Economic Commission that oversees the institutional framework that integrates the functions of Investment Development Board, Export Development Board, Industrial Development Board and National Enterprises Development Authority.
- It has been proposed to establish new investment zones in Hambantota, Jaffna, Trincomalee, Bingiriya and Kandy which will contribute to the export development.
- New rules will be introduced enabling Provincial Councils to promote export-oriented industries.
- It has been proposed to modernize the agriculture industry focusing on exports.
- The Excise Department of Sri Lanka is expected to encourage export of liquor and investments for new types of liquor products targeting foreign markets.
- It has been proposed to provide necessary facilities to expand the international market for indigenous medicines, food supplements, medicinal cosmetics and herbal ingredients made from traditional medicinal recipes.

➤ Tax Proposals

To eliminate non-tariff import taxes including import CESS, Port and Airport Levy (Phased out through 3 to 5 years).

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



»» Sectoral overview: Public sector (5/5)



Following are the fiscal proposals stemming from the Budget Speech 2024.

➤ Fiscal Proposals

- The cost-of-living allowance for public servants will be increased to LKR 17,800 from LKR.7,800 with effect from 01 January 2024 and the payment will commence from 1 April 2024. The arrears owed from January to March will be paid in installments from October 2024 spread across 6 months.
- Cost of living allowance for Government pensioners will be increased by LKR. 2,500 (with effect from 01 April 2024)
- Proposed to increase the Widows', Widowers' and Orphans' Pension Scheme's contribution percentage to 8% from April 2024.
- The food and lodging allowance for three groups of officers in the Police Department to be increased.
- Recommence provision of Distress Loan facility for all public servants from January 2024 as previously implemented.
- An amount of LKR 2,521mn has been allocated for property loan interest subsidy for the public servants.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



A decorative graphic on the left side of the page. It features a dark blue background with a grid pattern at the bottom. Above the grid is a bar chart with several vertical bars of varying heights. At the top of the graphic, there are three wavy lines in shades of orange, red, and pink, with a dotted pattern on the right side.

Key Tax Proposals - Direct Tax

> Income tax Treatment on salary arrears

It has been proposed, effective from 01 January 2024, to change the tax treatment on salary arrears which creates an excessive tax burden on the employees.

i KPMG Observations

Presently, “Advance Personal Income Tax” (APIT) tables issued by the Commissioner General of Inland Revenue, mandates “salary arrears” to be taxed as a “lump sum payment” and has prescribed “table 2 – rates for the deduction of tax from lump sum payments” to calculate the tax payable. This generally results in a higher tax deduction on the employee especially if the payment of arrears is from a past tax year. The above proposal maybe intended to eliminate such anomalies. However, the revised method of calculating the tax is not provided in the Budget Speech and further clarification should be issued on the same.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



① Introduction of a special Tax Return for the sale of gems

The proposal seeks to introduce filing of a special tax return requirement for the deductibility of withholding tax at the rate of 2.5% on the sale of any gem at an auction conducted by the National Gems and Jewellery Authority.

Further, the proposal also indicates that the current exemption available under the Inland Revenue Act (i.e.any amount derived from the sale of gem which is already subject to withholding tax of 2.5%) would only apply subject to the furnishing of the special tax return referred above.

② Clarifications in calculating the Assessable Income of the person

It is proposed to provide clarity in relation to the following provisions in the Inland Revenue Act which would assist in arriving at the assessable income of a person.

- Deductible amount of financial cost (S. 18 of the Inland Revenue Act)
- Calculation of the business income of the person who is engaged in the business of insurance. (S. 67 of the Inland Revenue Act)

Further details/ clarifications to be specified in due course.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



➤ Mandatory requirement for Unit Trust

A unit trust is deemed as "not conducting an eligible investment business" unless information as specified by the Commissioner General is produced to every unit holder before 30th August following the Year of Assessment (Details of income, exempt amounts and withholding tax details)

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)

i KPMG Observations

- Currently, if the Unit Trust is conducting an eligible investment business it would be treated as a "Trust" , while if the unit trust is not conducting an eligible investment business it would be considered as a "company" for income tax purposes.

- As per the Inland Revenue Act:

Eligible investment means a business or investment comprising predominately of owning, investing or trading in –

- (a) capital assets;*
- (b) financial instruments; or*
- (c) other similar assets;*



> Mandatory Certificate of Taxpayer Identification Number (TIN)

The proposal makes it mandatory to submit the Certificate of the Taxpayer Identification Number (TIN) at the following instances:

- to open bank current account at any bank
- approval for a building plan
- to register a motor vehicle or renew license
- register a land or title to a land

Guidelines to be issued by the Commissioner General of Inland Revenue for the above purposes.

i KPMG Observations

Currently, a TIN could be obtained online through the “Revenue Administration Management Information system “ (RAMIS). The online application has mandatory fields such as name, national identify card number, residential address, e-mail address etc. To complete the process, one would also need to upload a document which would confirm the postal address of the taxpayer.

Furthermore, via Gazette Notification Number 2334/21 dated 31 May 2023 issued in terms of section 102 of the IRA, it was made mandatory, effective from 01 June 2023 and 01 January 2024 for certain mandated persons to register and obtain a TIN. We are of the view that the above proposal now seeks to strengthen compliance and enforce registration for Tax.

> Introduction of a special penal provision for the non-submission of tax returns and information

The proposal intends to introduce a special penal provision to prosecute persons who fail to submit tax returns and information required by the tax officials.

However, the extent of the penal provisions to be introduced has not been addressed in the budget speech presented.

i KPMG Observations

- Currently the following penal provisions are applicable in relation to failure to file return:
 - a) 5% of balance tax payments + 1% of balance tax payments for each/part of a month
 - b) Rs. 50,000 + Rs. 10,000 for each/part of a month
which is greater subject to the limit of LKR 400,000
- The non-submission of information attracts a penalty not exceeding LKR 1,000,000

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



> Clarification – Court Proceedings

The proposal seeks to provide clarity on the provisions dealing with the Court proceedings.

Currently, the Commissioner-General may commence proceedings in a court of competent jurisdiction where a person fails to pay taxes in due (S.163 of Inland Revenue Act).

> Non submission of documentary evidence during tax audit and the administrative review process

Non submission of documentary evidence within a reasonable time period i.e. 6 months and 9 months from the date of call for evidence available within Sri Lanka and outside Sri Lanka respectively, during the tax audits or administrative reviews would not be permissible to submit the same during the hearing at the Tax Appeals Commission.

Accordingly, the relevant provisions in the Tax Appeals Commission Act, would also be amended.

Presently, there are no restriction for the submission of documentary evidence at the Tax Appeals Commission proceedings.

> Issuance of Withholding Tax Certificate

The Withholding agent in meeting his obligations under S. 87 of the Inland Revenue Act (i.e. Issuing withholding tax certificate) should not charge any payments from the withholder.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



A decorative graphic on the left side of the page. It features a dark blue background with a grid pattern at the bottom. Above the grid is a bar chart with several vertical bars of varying heights. At the top of the graphic, there are three wavy lines in shades of orange, red, and purple, with a dotted pattern on the right side.

Key Tax Proposals - Indirect Tax

> VAT Rate

The standard VAT rate will be increased from 15% to 18% with effect from 01 January 2024. As per S.2A of the VAT Act, the Minister of Finance is empowered to revise the VAT rate by issuing a Gazette notification. The Gazette Notification will be issued in due course. The VAT rate for Financial Services will remain at 18%.

> Tax Invoice

An amendment will be introduced to enable the Commissioner General of Inland Revenue (CGIR) to specify the format of the tax invoice.

Currently, S.20 of the VAT Act sets out the format of the Tax Invoice for VAT purposes but does not include a provision to allow the CGIR to specify the format. Further, to the above proposal, the CGIR will be able to specify modifications to the Tax Invoice via notification.

> Taxable Period

The term 'Taxable Period' provided in the VAT Act will be defined to have the same Return filing frequency for all taxpayers. Clarification is required on whether the Return Filing requirement will be monthly or quarterly as per the revision proposed. As per the VAT Act, currently there are two taxable periods i.e., one month for Registered Identified Purchaser (RIP) and S. 22(7) registrants and three months for others.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)

i KPMG Observations

As per the Bill to amend the VAT Act ordered to be published by the Minister of Finance on 31 August 2023 ("The Amending Bill"), it was suggested to abolish the SVAT scheme with effect from 01 January 2024 which was deferred to 01 April 2025 via the Cabinet decision dated 11 September 2023. Further, the Amending Bill proposed a taxable period of one month for any person making zero rated supplies and for any person who has commenced a business or a project and undertakes to comply with the requirements related to the commencement of such a project.

The budget proposes to have a common Taxable Period for all taxpayers including persons currently registered under the SVAT scheme as a RIP. This is presumably to administratively facilitate the removal of the SVAT scheme with effect from 01 April 2025.

The above proposal should be accommodated via a Committee stage amendment when the Amending Bill is enacted.



Use of Point of Sale (POS) machines

It is proposed to encourage the usage of POS machines for automated invoicing and sales recording purposes to ensure the proper collection of taxes in relation to supply of goods or services.

KPMG Observations

The use of electronic POS machines for VAT record purposes is adopted by many foreign jurisdictions such as United Kingdom (UK), United Arab Emirates (UAE) etc., for the retail industry. The use of electronic POS machines is to collect real time data effectively by the Tax Administrator. Clarity is required on the mechanism that would be adopted to implement the above proposal.

Removal of exemptions

The annexure to the Budget Speech refers to the removal of exemptions in the VAT Act other than for products relating to health, education and a few essential foods as a tax reform.

KPMG Observations

The Amending Bill issued on 31 August 2023 which is pending enactment proposed to remove most of the exemptions retaining only 50 exemptions. This budget proposal seeks to reduce the number of exemptions going beyond the proposal in the Amending Bill. Hence, a Committee stage amendment would be required to the Amending Bill to accommodate the budget proposal.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



A decorative graphic on a blue background. At the top, there are three wavy lines in orange, pink, and purple. Below them is a bar chart with several vertical bars of varying heights. At the bottom, there is a grid pattern.

Key Proposals - Sri Lanka Customs & Excise Department

Elimination of non-tariff import taxes

It is proposed to eliminate non-tariff import taxes including import CESS, Port and Airport Development Levy within a period of 3 to 5 years. This is proposed with an objective of improving Sri Lanka's connectivity with foreign trade and global markets.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)

KPMG Observations

The elimination of non-tariff / para-tariffs is a requirement stemming from the World Trade Organization for improvement of global trade. Similar proposal were introduced in previous years as well.



① Department of Sri Lanka Customs

- The risk management capabilities of Sri Lankan Customs are to be developed through the introduction of a sophisticated software solution. The objective of this is to;
 - enhance risk assessment for revenue risks
 - improve operational efficiency in customs clearance
 - ensure compliance with Regulations
 - relating a sustainable, adaptable software system for future needs
- Steps will be taken to further modernize the Customs laws to prepare the Customs laws of Sri Lanka according to global best practices.
- Introduction of a mechanism to prevent mis-invoicing.
- ASYCUDA system to be upgraded
- Key Performance Indicators (KPIs) to be introduced in relation to the core administration functions of the Customs

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



> Tax Administration

The Government has proposed several measures to improve the efficiency of the Excise Department such as;

- introduction of an online licensing system
- introduction of a new excise licensing system
- appointing a committee to evaluate the security features and security features management system in order to address issues in the system
- reviving the toddy tender system in order to discourage illicit toddy industry
- introduction of administrative fees on services provided by excise department
- to share information with stakeholder institutions

> Policy proposals

Several policy measures have been proposed in relation to Excise Department.

- in order to maintain the quality of products, introducing Sri Lanka Standards (SLS) for toddy and all types of locally manufactured liquor
- increase in the excise license fees
- with the objective of targeting foreign markets, encouraging investment in new types of liquor,
- making locally produced liquor available in duty free shops
- in order to Increase efficiency and productivity in excise revenue management, and minimize risks of wastages and corruption a 'Revenue Administration System for Excise Department' (RASSED) will be introduced
- encourage research and development (R&D) in the liquor industry
- strengthen tax collection and enforcement in beedi industry

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)





Other Proposals



Amendments to administrative provisions

Amendments will be made to the respective provisions of below Acts in order to streamline revenue administration and to rectify several ambiguities and unintended effects:

- Inland Revenue Act No.24 of 2017
- Value Added Tax Act No.14 of 2002
- Finance Acts and Finance (Amendment) Acts
- Social Security Contribution Levy Act No.25 of 2022
- Telecommunication Levy Act No 21 of 2011
- Tax Appeals Commission Act No 23 of 2011

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



A large blue rectangular graphic with a white border. At the top, there are three wavy, overlapping lines in shades of orange, red, and purple. Below these lines, the text "Tax Fact Sheet" is written in a large, bold, white sans-serif font. The background of the blue rectangle features a faint, light blue bar chart with approximately 15 vertical bars of varying heights. At the bottom of the blue rectangle, there is a perspective grid of light blue lines.

Tax Fact Sheet

»» Tax Fact Sheet – Income Tax – Corporates



» Tax Rates for Companies

Description	Rate
Standard Tax Rate	30%
Betting and Gaming	40%
Manufacture and Sale or Import and Sale of any liquor or tobacco	40%
Capital Gains Tax	30%

» Tax Rates for Trusts, Unit Trusts or Mutual Funds

Description	Rate
Standard Tax Rate	30%
Capital Gains Tax	10% (subject to conditions)

» Charitable Institutions

Description	Rate
Standard Tax Rate	14%
Capital Gains Tax	10%

» Partnership

Description	Rate	
Standard Tax Rate	Not exceeding LKR 1,000,000	0%
	Exceeding LKR 1,000,000	6%
Capital Gains Tax	10%	

» Non-Governmental Organizations

Description	Rate
Standard Tax Rate	30%
Additional tax under Section 68 (Additional tax on 3% of amount received by way of grant, donation or contribution or any other manner)	30%
Capital Gains Tax	10%

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



⤵ Employees Trust Funds, Provident, Pension or Gratuity Funds and Termination Funds

Description		Rate
Standard Tax Rate		14%
Gain and profits received /derived from treasury bonds	Where the fund has invested in <i>eligible bonds</i> and <i>not effectively participated</i> in the process of domestic debt optimization approved by Parliament	30%
	Where the fund has invested in <i>eligible bonds</i> and confirmed by Registrar of the Public Debt Department of CBSL that the fund has <i>effectively participated</i> in the process of domestic debt optimization approved by Parliament	14%

- **“eligible bonds”** means the treasury bonds applicable for the purposes of domestic debt optimization, issued under the Registered Stocks and Securities Ordinance (Chapter 420) that are-
 - a. maturing between 28 June 2023 and 31 December 2023 (excluding the treasury bonds maturing on 15 July 2023 and 01 September 2023); and
 - b. maturing in the calendar years 2024 to 2032 (both inclusive)
- **“effectively participated”** means the submission of offers by the Employee Trust Fund, an approved provident or pension fund or an approved termination fund for not less than 50% of the total holding of each series of eligible bonds maturing in the year 2023, and for 100% of the total holding of eligible bonds maturing in the calendar years 2024 to 2032 (both inclusive) and acceptance of such offers by the Registrar of the Public Debt Department of the Central Bank of Sri Lanka

⤵ Tax Rates for Dividend and Exemptions

- Gains or Profits from dividend are taxed at the rate of 15%
- **Exemptions**
 - Dividend payment is attributable to or derived from another dividend received
 - Resident company which are engaged in following business in accordance with provision of Finance Act No 12 of 2012 and which has entered into agreement with BOI.
 - Entrepot trade involving import, minor processing and re – export
 - Offshore business where goods can be procured/ manufactured from on country and shipped to another country without bringing into Sri Lanka
 - Providing front – end services to clients abroad
 - Logistic services including bonded warehouse or multi – country consolidation in Sri Lanka
 - Headquarters operations of leading buyers for management of financial supply chain and billing operations
 - Dividend from a non-resident company where derived by any person with respect to a substantial participation in the non-resident company. “ Substantial Participation” means;-
 - holding 10% or more of the value of shares in the company, excluding redeemable shares; together with
 - Control, either directly or indirectly, of 10% or more of the voting power in the company

⤵ Remittance Tax Rate

- Profits remitted by non-resident person is taxed at 14%

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



➤ Withholding Tax Rates

Payment to Resident Persons

Description	WHT Rate
Winning from lottery, reward, betting, or gambling to any person	14%
Interest or discount	5%
Charge, natural resource payment, royalty or premium	14%
Rent paid per month > LKR 100,000	10%
Dividend	15%
Service fee payment to the following Individuals who is not an employee of the payer (which exceeds LKR100,000 per month); a) for teaching, lecturing, examining, invigilating or supervising an examination b) as a commission or brokerage to a resident insurance, sales or canvassing agent; or c) for services provided by such individual in the capacity of independent service provider such as doctor, engineer, accountant, lawyer, software developer, researcher, academic or any individual service provider as may be prescribed by Regulation	5%
Sum payable to the seller for any gem sold at an auction conducted by the National Gem and Jewellery Authority	2.5%

Payment to Non- Resident Persons

Description	WHT Rate
Service fee or Insurance premium with a source in Sri Lanka	14%
Payment with respect land, sea, air transportation or telecommunication service	2%
Rent	14%

Final Withholding payments

- Amounts paid as winnings from a lottery, reward, betting or gambling, other than amounts received in conducting a business
- Dividends paid by a resident company
- payments made to a non-resident person who is not a citizen of Sri Lanka or to a non-resident entity that is subject to withholding, other than payments derived through a Sri Lankan Permanent Establishment
- Interest paid to or treated as being derived by a non-resident individual who is a citizen of Sri Lanka other than;
 - Such amount of interest paid falling within the relief threshold in paragraph 2 (a) of the first Schedule of the Act or
 - Such amount calculated by deducting the total of other sources of assessable income (total assessable income other than interest) from the relief threshold if the total of assessable income from other sources does not exceed the relief threshold

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals- Direct Tax](#)

[Key Tax Proposals- Indirect Tax](#)

[Key Proposals- Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



Income Tax Calendar 2024 – Corporates



The below table provides you with a glance of income tax deadlines coming up in the Year 2024

Month	Date	Payments	Returns/Statements
January	15	WHT/AIT payment by WHA for December 2023	-
		APIT payment by employer for December 2023	
February	15	3 rd installment payment for YA 2023/24	Revised SET Form for YA 2023/24 (if required)
		WHT/AIT payment by WHA for January 2024	-
		APIT payment by employer for January 2024	
March	15	WHT/AIT payment by WHA for February 2024	-
		APIT payment by employer for February 2024	
	31	-	CbCR for the Group FY ended March 2023 (Subject to threshold)
April	15	WHT/AIT payment by WHA March 2024	-
		APIT payment by employer for March 2024	
	30	-	WHT/ AIT Annual Statement by WHA APIT Annual Statement by Employer
May	15	4 th installment payment for YA 2023/24	Revised SET Form for YA 2023/24 (if required)
		WHT/AIT payment by WHA for April 2024	
		APIT payment by employer for April 2024	
June	15	WHT/AIT payment by WHA for May 2024	-
		APIT payment by employer for May 2024	
July	15	WHT/AIT payment by WHA for Jun 2024	-
		APIT payment by employer for Jun 2024	
August	15	1 st installment payment for YA 2024/25	SET Form for the YA 2024/25
		WHT/ AIT payment by WHA for July 2024	
		APIT payment by employer for July 2024	
September	15	WHT/ AIT payment by WHA for August 2024	-
		APIT payment by employer for August 2024	
	30	Final payment for the YA 2023/24	-

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



Income Tax Calendar 2024 – Corporates



The below table provides you with a glance of income tax deadlines coming up in the Year 2024

Month	Date	Payments	Returns/Statements
October	15	WHT/ AIT Payment by WHA for September 2024	-
		APIT payment by employer for September 2024	
November	15	2 nd installment payment for YA 2024/25	Revised SET Form for YA 2024/25 (if required)
		WHT/ AIT payment by WHA for October 2024	
	APIT payment by employer for October 2024		
	30	-	Filing of Income Tax Return for the YA 2023/24 along with TPDF (Subject to threshold)
December	15	WHT/ AIT payment by WHA for November 2024	-
		APIT payment by employer for November 2024	
	31	-	CbCR for the Group FY ended December 2023 (Subject to threshold)
			CbCR Notification for the Group FY ended December 2024/ ending March 2025 (Subject to threshold)

Note

APIT	Advance Personal Income Tax
AIT	Advance Income Tax
CbCR	Country by Country Reporting
CBSL	Central Bank of Sri Lanka
FY	Financial Year
SET	Statement of Estimated Tax
YA	Year of Assessment
WHT	Withholding Tax
WHA	Withholding Agent

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



➤ Individual Tax Rates & Slabs

Sri Lanka income tax follows a progressive tax system. The tax-free relief threshold with effect from 01 January 2023 is LKR 1.2mn. The taxable income thereafter will be taxed based on the following progressive rates. The following rates will be applied for the Year of Assessment 2023/24 and thereafter (subject to subsequent changes)

Taxable Income	Tax Rate
1 st Rs.500,000	6%
2 nd Rs.500,000	12%
3 rd Rs.500,000	18%
4 th Rs.500,000	24%
5 th Rs.500,000	30%
Balance	36%

➤ Individual Tax Rate – Capital Gains

- The Capital Gains Tax rate for an individual from the realisation of an investment asset is 10%.
- Capital gains is calculated on the difference between the “consideration received” and the “cost” of an investment asset.
- In the event the investment asset was acquired prior to 30 September 2017, the cost of the investment asset would be the market value of such asset as at 30 September 2017.
- The consideration is considered the higher of the amount received or receivable by the person in respect of such asset or the assessed value at the time of realization. “Assessed value” means the value at the time of the realisation, certified by a professionally qualified valuer in a valuation report.

➤ QP Deduction / Reliefs

In arriving at the “taxable Income” which would be subject to tax, an individual is permitted to deduct certain reliefs as specified in the fifth schedule to the Inland Revenue Act. Key QP deductions are noted below:-

- Donations made to approved charities (Deduction is subject to certain limitations).
- Donations made in money or otherwise to the Government of Sri Lanka.
- Personal relief amounting to LKR 1,200,000.
- Rental income from an investment asset, an amount equal to 25% of the total rental income being relief for repair, maintenance and depreciation could be deducted, provided actual cost for repair, maintenance and depreciation is not deducted.
- LKR 600,000 for each year of assessment, up to the total expenditure incurred or amounts paid to a bank in respect of any loan obtained to acquire a solar panel on or after 01 April 2021 which is connected to the national grid.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



➤ Tax Exemptions

An individual is permitted to exclude certain income (exempt amounts) as specified in the third Schedule to the Inland Revenue Act. Key exemptions are noted below:

- Gain arising from the disposal of an individual's "principal place of residence" provided it has been owned by the individual continuously for three years before being disposed and lived by the individual for at least two years of those three years.
- Gains arising from the disposal of shares quoted in any official list published by any stock exchange licensed by the Securities Exchange Commission of Sri Lanka.
- Dividend payments attributable to dividend received by another resident company or which has been subject to "Advance Income Tax".
- Interest accruing or derived by an individual on money lying to his credit in foreign currency in a foreign currency account approved by the Central Bank of Sri Lanka.
- Government pension.
- An amount derived by a senior citizen from an annuity for life for a period of not less than ten years purchased from a bank or an insurance company registered under the Regulation of Insurance Industry Act, No.43 of 2000;

➤ Advance Personal Income Tax (APIT)

- With effective from 01 January 2023, it was mandated that all employers should deduct APIT monthly on the employment income paid to its employees. What constitutes employment income has been defined in the tax law under Section 05 of the IRA and includes "cash" and "non-cash" benefits. The amount of tax to be deducted monthly have been prescribed by the Commissioner General of Inland Revenue through APIT tables.
- In calculating the amount of APIT deductible monthly, the tax law mandates that no expenses can be deducted. Simply put, the "Gross" employment income would be subject to APIT (no deductions are permitted for EPF, loan advances, stamp duty etc).
- At the end of the Year of Assessment, it is mandatory for the employer to issue a T-10 certificate to the employee. The T-10 certificate would indicate the total employment income received, exempt employment income, taxes withheld under APIT. This certificate should be presented to the Department of Inland Revenue along with the Income Tax Return.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



Income Tax Calendar 2024 – Individual



The following table provides you with a glance of individual income tax deadlines coming up in the Year 2024

Month	Date	Payments	Returns/Statements
January			
February	15	Third installment payment for the Y/A 23/24	If there is revision to the original SET, revised SET for Y/A 23/24
March			
April			
May	15	Fourth installment payment for the Y/A 23/24	If there is revision to the original SET, revised SET for Y/A 23/24
June			
July			
August	15	First installment payment for the Y/A 24/25	Original SET for Y/A 24/25
September	30	Final Income Tax payment for the Y/A 23/24	-
October			
November	15	Second installment payment for the Y/A 24/25	If there is revision to the original SET, revised SET for Y/A 24/25
	30		Submission of Annual Income Tax Return for Y/A 23/24
December			

Capital Gains Tax is paid separately on each transaction. The Capital Gains Tax is payable within thirty days after the end of the relevant calendar month in which the investment asset is realized.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



A decorative graphic at the top of the page, featuring several overlapping, wavy bands in shades of orange, red, and magenta, with a dotted pattern on the right side.

About KPMG Sri Lanka



KPMG Sri Lanka at a glance



Professionals In KPMG Sri Lanka

Professionals
1,200+

Partners
18

People locally

Part of

143

Countries in the Global Network

Celebrating excellence spanning

125

years and beyond

Audit - 765

Tax - 59

Advisory - 323

Combined Global Revenues

\$34.64

USD in Billions

Established in

1897

The oldest Chartered Accountancy firm in the country

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)

Awards and Recognitions

2023
One of LMD's most Respected Entities in Sri Lanka for 2023

2022
Sector winner in Financial Services by LMD's most Respected Entity in Sri Lanka for 2022

2022
KPMG firms named a "Strong Performer" by Forrester - The Forrester Wave™: Oracle Cloud Apps Implementation Services Partners, Q2 2022

2021
KPMG Sri Lanka ACCA Platinum Employer Status for Training and Professional Development



2021
Sector winner in Financial Services by LMD's most respected entity in Sri Lanka for 2021

2021
Best Corporate Advisory Firm - Sri Lanka 2021 Global Economics Awards

2019
First in Financial Services Category LMD Most Respected 2019

2019
Forrester Wave Leader – 2019 – Global Cyber Security Consulting Services

2018
Sri Lanka Tax Firm of the Year Asia Tax Awards 2018

2018
Oracle SaaS Partner of the Year 2018 Oracle ERP Partner of the Year 2018 Oracle SCM Partner of the Year 2018

2017
First in the Auditors League in Sri Lanka LMD 100 - 2017

2017
First in the Auditors League in Sri Lanka LMD 100 - 2017

2016
Best Advisory Firm in Sri Lanka The International Finance Magazine 2016

2016
Best Deal Advisory Firm in Sri Lanka Global Banking and Finance Review 2015



KPMG Leadership Team – Sri Lanka



[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)



Priyanka Jayatilake

Managing Partner

Tax



Suresh Perera
Principal - Head of Tax & Regulatory



Rifka Ziyad
Principal - Tax & Regulatory

Tax

Advisory



Kamaya Perera
Partner - Head of Management Consulting & Technology, Deputy Head of Advisory & PPC



Jagath Perera
Partner - Governance Risk & Compliance Services, Forensic Services Risk Management Partner



Shiluka Goonewardene
Principal - Deal Advisory Head of Advisory Deputy Head of Sales and Markets



Dulitha Perera
Partner - Risk & Healthcare Consulting

Advisory

Audit



Suren Rajakarier
Partner - Chief Operating Officer Head of Audit & Assurance



Ranjani Joseph
Partner - Head of Banking Services & Markets, Deputy Head of Audit



Chamara Abeyrathne
Partner - Audit Head of Maldives Practice and Delivery Centre



Upul Karunaratne
Partner - Audit Deputy Risk Management Partner



Thamali Rodrigo
Partner - Audit & Family Business Consulting



Harsha Rajan
Partner - Audit Head of PPC



Shameel Nayeem
Partner - Audit



Dhammika Rajapakse
Partner - Audit



Radiitha Alahakoon
Partner - Department of Professional Practice (DPP)



Pyumi Sumanasekara
Partner - Sustainability, ESG, Family Business & Board Governance, Global Assurance



Duminda Rathnadiwakara
Partner - Audit

Audit





Suresh Perera
Principal - Head of
Tax and Regulatory



Rifka Ziyad
Principal - Tax and
Regulatory

Our Tax Team



Hasna Hassan
Director - Tax
and Regulatory



Hasitha Raddella
Director - Tax and
Regulatory



Radhini Thomas
Associate Director -
Tax and Regulatory



Sushendra Senanayake
Associate Director - Tax
and Regulatory

[Economic
Impact](#)

[Sectoral
Overview](#)

[Key Tax
Proposals -
Direct Tax](#)

[Key Tax
Proposals -
Indirect Tax](#)

[Key
Proposals -
Sri Lanka
Customs &
Excise
Department](#)

[Other
Proposals](#)

[Tax Fact
Sheet](#)

[About KPMG
Sri Lanka](#)





KPMG's Impact Plan

As a Global Network, KPMG, we're driven by our Purpose — **to inspire confidence and empower change**. KPMG as a network is even more determined to make a positive impact on the world.

In 2021, for the first time KPMG International brought together KPMG's environmental, social and governance (ESG) commitments under one umbrella: **Our Impact Plan**. Using our Values as a guide, Our Impact Plan clarifies our commitments and actions across four important categories: Planet, People, Prosperity and Governance. KPMG International has approached this plan by reviewing our collective commitments including our carbon footprint, renewable energy usage and inclusiveness.

As the world faces one of the most significant periods of unrest for generations, KPMG is guided by its Purpose and Values that have, helped us build trust in capital markets, strengthen economies around the world and contribute to a sustainable society.

Through Our Impact Plan, we turn the mirror on ourselves. We analyze what we can and should be doing to meet our responsibility to help shape a better future by doing what we do among the best — solving problems to make lasting, meaningful change. We know that we need to do more to match the expectations and needs of a world that is changing very quickly.

We continue to work together to create meaningful change, and Our Impact Plan is our roadmap to get there.— **Together. For Better.**

Being part of our network, KPMG Sri Lanka is dedicated to KPMG's Impact Plan (Environmental, Social, and Governance - ESG) and committed to reducing our environmental footprint.



As part of this commitment, ***we have decided not to produce hard copies of 2024 KPMG Budget Analysis***. However, we are pleased to offer KPMG Sri Lanka's clients access to ***digital, soft copies that are easily downloadable***. This transition to digital distribution aligns with our sustainability goals, fostering that valuable insights are easily accessible while minimizing our paper usage and environmental impact.

We appreciate your support and cooperation in this eco-conscious initiative.

[Economic Impact](#)

[Sectoral Overview](#)

[Key Tax Proposals - Direct Tax](#)

[Key Tax Proposals - Indirect Tax](#)

[Key Proposals - Sri Lanka Customs & Excise Department](#)

[Other Proposals](#)

[Tax Fact Sheet](#)

[About KPMG Sri Lanka](#)





Contact us

KPMG Tax Team

Follow us on:



www.home.kpmg/lk

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.

© 2023 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are registered trademarks of KPMG International.