TAX ALERT

Tax Reforms announced on 18 December 2024

December 2024

Significant Tax Reforms were announced by the Honorable President His Excellency Anura Kumara Dissanayake in his speech on 18th December 2024 addressing the Parliament.

Snapshot of the Key Tax Reforms are as follows

	Tax Type	Proposed Change
1.	Individual Income Tax	• Increase in the personal relief up to Rs 1.8mn per annum (Rs 150,000 per month) from Rs 1.2mn (Rs 100,000 per month) • Combination of the 1st Rs 500,000 slab and the 2nd Rs 500,000 slab and for the Rs 1mn slab 6% is applied. • w.e.f 01 April 2025 (Refer annexure 01 for more details)
2.	Advance Income Tax (AIT) on Interest	• The current AIT rate of 5% on interest is increased to 10%. • Direction mechanism to be introduced to prevent interest income below the personal relief to be paid without being subject to deduction. • Currently, the AIT on Interest is not a final tax. No changes to this status has been proposed. • w.e.f 01 April 2025
3	Corporate Income Tax (CIT) – Introduction of a concessionary tax rate of 15%	• Foreign service providers will be subject to tax at a concessionary rate of 15% w.e.f 01 April 2025. • The current exemption enjoyed by foreign service providers will be removed from 01 April 2025 and CIT will be applicable at 15%. Clarity required as to whether this rate will be applicable for individual foreign service providers as well.
4.	Corporate Income Tax (CIT) – Increase of tax rate from 40% to 45%	• Gains and profits from betting and gaming, manufacture and sale or import and sale of any liquor or tobacco products will be subject to tax at the rate of 45% w.e.f 01 April 2025 • This was proposed in the International Monetary Fund (IMF) report in June 2024
5.	Value Added Tax (VAT) – Exemption	Reintroduction of the exemption for locally produced liquid milk and locally manufactured yoghurt from VAT w.e.f 01 April 2025
6.	Value Added Tax on Digital Service Providers	• Digital services provided to Sri Lankan consumers by Non-Resident digital service providers to be liable to VAT at 18%. • This was proposed in the IMF report in June 2024

Other Proposals		Proposed Change
7.	Relaxation of Vehicle Importation	Import restrictions on vehicles to be removed in a phased-out manner. • Buses, commercial vehicles, special purpose vehicles – ban to be lifted immediately. Refer annexure 02 for the press release on the same by the Ministry of Finance. • Vehicles that transport goods and vehicles for private use – ban to be lifted w.e.f 01 February 2025
8.	Stamp Duty	• Stamp Duty on Leases to be increased to 2% • This was proposed in the IMF report in June 2024

TAX ALERT

IMF Country Report Vs Recent Announcement

December 2024

A comparison between the International Monetary Fund (IMF) Proposals made during the 2nd review of the IMF Extended Fund Facility in June 2024 and the Tax Reforms Announced by His Excellency the President on 18 December 2024 is provided below :

IMF proposal made during the second review of the Extended Fund Facility - Country Report No. 24/161 – June 2024	Tax Policy Views expressed by His Excellency the President on the 18 December 2024
Removal of the Corporate Income Tax exemption on the export of services	Post exemption removal export of services to be taxed at 15%
Introduction of Imputed Rental Income Tax on owner-occupied and vacant residential properties before the beginning of the tax year on 01 January 2025	Further clarity is required whether this proposal will be implemented
Introduce VAT at a rate of 18% on the supply of digital services	No Policy Change
Full repeal of the SVAT system by April 2025. Testing the new procedures in a limited and controlled manner by September 2024 for the issuance of the VAT Refunds	Information available indicates that the SVAT which was initially proposed to be abolished by 01 April 2025 may continue
Increase of stamp duty on leases of land from 0.1% to 0.2%	No Policy Change Error in the rate indicated in the IMF country report is rectified
Increase Corporate Income Tax rate from 40 to 45% on betting and gaming, tobacco and liquor	No Policy Change
Lifting import ban on motor vehicles and other imports	No Policy Change

TAX ALERT

Annexure 01

December 2024

Proposed Individual Income Tax Slabs :-

Tax Rate	Proposed Slab (Rs) (p.a)
0% (Personal Relief)	1.8 Mn
6%	1.8 Mn – 2.8 Mn
18%	2.8 Mn – 3.3 Mn
24%	3.3 Mn - 3.8 Mn
30%	3.8 Mn – 4.3 Mn
36%	> 4.3 Mn

Tax Saving further to the proposed changes for various monthly salary levels.

Monthly Salary (Rs)	Proposed APIT (Rs) (p.m)	Current APIT (Rs) (p.m)	Tax Saving amount (Rs)	Tax Saving %
200,000	3,000	10,500	7,500	71.4%
300,000	18,500	35,000	16,500	47,1%
400,000	50,000	70,500	20.500	29%
500,000	86,000	106,500	20.500	19.2%
600,000	122,000	142,500	20.500	14.4%
700,000	158,000	178,500	20.500	11.5%
800,000	194,000	214,500	20.500	9.5%
900,000	230,000	250,500	20.500	8.2%
1,000,000	266,000	286,500	20.500	7.1%

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MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

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Media Release

Removal of Temporary Suspension on Importation of Motor Vehicles - Stage I

The temporary suspension/restriction on importation of non-essential commodities including motor vehicles has been effective since early 2020. This policy was implemented with the intention of easing the pressure on foreign exchange reserves in the face of the Covid-19 pandemic and the economic downturn. Despite restrictions on certain goods being gradually relaxed, the temporary suspension of importation of motor vehicles and a few non-motorized items with wheels, which are classified under 304 HS Codes, has been in effect continuously.

Considering the gradual recovery and normalization of the economy along with the improvement in external buffers, the approval of the Cabinet of Ministers has been granted on September 13, 2024 to remove the temporary suspension of importation of motor vehicles and a few non-motorized items with wheels, which are classified under 304 HS Codes, under three (03) stages, subject to concurrence of the Central Bank of Sri Lanka. Of the said three stages, approval has been granted by Hon. President/ Minister of Finance, Planning and Economic Development to implement Stage One.

In this context, the Imports and Exports (Control) Regulations No. 14 of 2024 under the Imports and Exports (Control) Act, No. 1 of 1969 has been promulgated through the Gazette Notification No. 2415/35 dated December 18, 2024 in order to allow importation of public passenger transport vehicles and special purpose vehicles and other non-motorized items with wheels classified under 52 HS Codes under Stage I subject to following conditions;

i. Imported motor vehicles should be registered with the Department of Motor Traffic within ninety (90) days from the date of Bill of Entry/ Customs Declaration (CUSDEC).

ii. If it is failed to register any imported motor vehicle within the stipulated time period by the importer, such importer shall be liable to pay a monthly late fee of 03% Percentage of the Cost-Insurance-Freight (CIF) value of the said motor vehicle, at the time of registration of motor vehicle at the Department of Motor Traffic, where a maximum cap on the payment of the monthly late fee for such late registration is limited at 45%(Forty-five percentage) of the CIF value of respective motor vehicle.

iii. Any motor vehicles, imported by an importer for trading purpose shall not be registered in the name of such importer or in the name of the Company, or in the names of Directors of the Company and, it should be registered in the name of the buyer.

iv. If any importer, who has imported more than 25% of his or her total imported motor vehicles during a period of six (06) months in violation of the condition of registration of motor vehicles within ninety (90) days from the date of importation, the said importer shall be suspended from importation of motor vehicles for a minimum period of thirty six (36) months.

v. If any importer imports a vehicle classified under Chapter 87 of the HS Code Classification in violation to these Regulations and/or any prevailing Rules and Regulations applicable on importation of motor vehicle(s), such motor vehicles(s) shall be re-exported by the respective importer within ninety (90) days from the date of the Bill of Entry/ Customs Declaration (CUSDEC) with all associated costs borne by the said importer.

vi. When determining the age of the motor vehicle, the period between the date of Manufacture and the date of the Bill of Lading/ Airway Bill of that motor vehicle shall be calculated.

vii. In case non-motorized items with wheels are imported, such vehicles should not be used ones.

These conditions have been imposed with the intention of safeguarding foreign exchange reserves of the country by way of discouraging importation of an excessive number of vehicles and keeping unnecessary stock of motor vehicles by the importers while spending substantial amounts of foreign exchange.