

Social Security Contribution Levy

June 2022

Tax Alert

The Bill governing the imposition and administration of the Social Security Contribution Levy (SSCL) was published in the Gazette on 21 June 2022. The SSCL is a new tax proposed in the Budget 2022.

This alert has been prepared based on the Bill. As per the legal process involved in legislating, changes could be introduced via Committee Stage amendments. The synopsis of the Bill is provided below.

A. Taxable Person

SSCL is payable by the following persons for every quarter on or after 1 July 2022

1. Importer of any article;
2. Manufacturer of any article;
3. Service provider of any description; and
4. Wholeseller or retailer of any article.

Relevant Definitions

- “Person” shall have the same meaning as in the Inland Revenue Act, No. 24 of 2017
- “Quarter” means the period of three months commencing on the first day of January, April, July or October of any year.
- “Manufacture” means any process for—
 - a. making an article;
 - b. assembling or joining any article whether by chemical process or otherwise;
 - c. adapting for sale any article; and
 - d. packaging, bottling, putting into boxes, cutting into pieces, cleaning, polishing, wrapping, labeling, or in any other way whatsoever preparing for sale any article otherwise than in a retail store for the purpose of sale in such store exclusively and directly to the consumer
- “Importation” excludes bringing any article in the personal baggage of the passenger into Sri Lanka
- “Service” includes any business of real estate and improvements thereon

B. Registration Threshold

- **Importer** – No registration threshold
- **Other chargeable persons**
 - a. If the aggregate turnover exceeds LKR 120,000,000 within the 12-months period immediately prior to the date of the operation of the Act
 - b. If the aggregate turnover for a quarter exceeds or is likely to exceed LKR 30,000,000

The CGIR has the power to exclude turnover from a single isolated transaction in calculating the total turnover for registration threshold.

C. Registration Process

Every taxable person who meets the registration threshold, other than an importer, is required to be registered by making an application to the CGIR in the specified form, not later than 15 days from the date of the operation of the Act or not later than 15 days from the date on which it exceeds or is likely to exceed the quarterly registration threshold.

CGIR is empowered to carry out forceful registration of a person who is liable to SSCL.

D. Rate of Tax

The rate of SSCL will be 2.5% on the “liable turnover”

Definition of “Liable Turnover”

- *Importation of any article* – 100% of the turnover
- *Manufacture of any article* – 85% of the turnover
- *Service provider* – 100% of the turnover
- *Wholeseller and retailer*
 - a) *Sale of any article by a registered distributor in relation to any manufacturer or producer of any goods in Sri Lanka* – 50% of the turnover
 - b) *Wholesale or retail sale other than item (a) above including importation and sale* – 25% of the turnover

Definitions of the “Turnover” is provided in the Bill.

E. Exempt Articles and Services

The First Schedule to the Bill contains certain Articles and Services that are exempt from SSCL. Few selected exemptions are listed below.

Exempt Articles

- Any article exported by the manufacturer
- Any article not being a plant, machinery or fixture imported by any person exclusively for the use in, or for, the manufacture of any article for export
- Fertilizer
- Petroleum and petroleum products
- L.P. Gas

- Pharmaceuticals identified under the HS Coding System.
- Any article manufactured by a company identified as a Strategic Development Project (SDP) under the SDP Act No. 14 of 2008 sold to another SDP or to a specialized project approved by the Minister of Finance.
- Fresh milk, green leaf, cinnamon, or rubber purchased from any local manufacturer or local producer

Exempt Services

- Generation and supply of electricity other than the supply of electricity by Ceylon Electricity Board
- Medical services
- Supply of water
- Transportation of goods and passengers
- The business of life insurance
- Any service provided by the Central Bank of Sri Lanka
- Services provided by any Government Department, Ministry or Local Authority
- Any services provided by the Employee's Trust Fund, Provident Fund, Pension Fund, Pension Trust Fund and Gratuity Fund

F. SSCL Payment

- Importer - The Director General of Customs shall collect the levy at the time of importation.
- Other registered persons - Every quarter on or before the 20th day of the immediately succeeding month of the relevant month of that quarter.

G. Default of SSCL Payment

Every person who fails to pay the levy is identified as a defaulter. Penalty of 10% and an additional 2% for each additional month of default will be charged on default payments. However, such penalty will be capped at 100% of the levy in default.

H. SSCL Return

Every registered person shall furnish to the CGIR a return either in writing or by electronic means for every quarter on or before the 20th day of the month after the end of each relevant quarter.

I. Assessments, Additional Assessments and Appeals

An Assistant Commissioner has the power to raise Assessments and Additional Assessments. No time-bar is provided in relation to raising of Assessments under the following circumstances.

- any registered person failing to furnish a return for the relevant quarter; or
- any registered person who furnishes a return in respect of any relevant quarter but fails to pay the levy fully or partly for that relevant quarter; or
- any registered person who requests the CGIR to make any alteration or addition to any return furnished by such person for the relevant quarter

Time bar for raising additional assessment is 3 years from the end of the relevant quarter.

The Bill contains the procedure for appealing to the CGIR and the Tax Appeals Commission.

J. Administration & Collection Authority

The CGIR shall be in charge of the administration of the SSCL.

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