



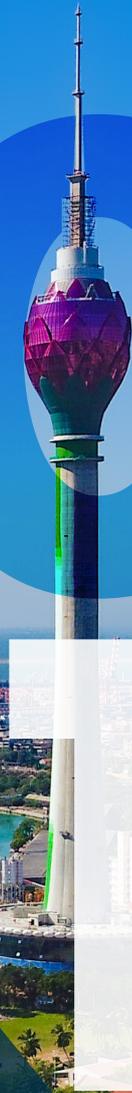
Knowing you.

# Budget Proposals

Overview

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**DISCLAIMER**

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

**November 18, 2020**

Dear Client,

## **BUDGET PROPOSALS - 2021**

**We have pleasure in forwarding herewith**

- a. A Summary of the Budget Proposals presented in Parliament on 17<sup>th</sup> November 2020, by Prime Minister and Minister of Finance Hon Mahinda Rajapaksa.
  
- b. Recent changes announced by the Department of Inland Revenue.

If you require any further information or clarifications relating to the above, you may contact us.

Yours faithfully,



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## CONTENTS

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### Tax Related Proposals

A. Tax Policy and Administration	6
B. Tax Concessions	7
C. Tax Exemptions	8 - 9
D. Miscellaneous Tax related proposals	10 - 11
E. Tax Relief Measures to facilitate post COVID -19 Economic Recovery	12

<b>Budget Speech Summary</b>	<b>13 - 27</b>
------------------------------	----------------

### Recent changes announced by the Department of Inland Revenue

A. Employment Income - Key Changes	29 - 30
B. Other Important Changes made to taxation of individuals - 2019/2020	31 - 32
C. Changes made to Withholding Tax and introduction of Advanced Income Tax	33 - 36
D. Income Tax Rates – Key Changes	36 - 38
E. Exemptions effective from 1st January 2020, 1st April 2018 & 1st April 2019	38 - 39
F. New Relief & Qualifying Payments	40
G. Value Added Tax	40 - 41
H. Taxes Abolished	41

<b>Tax Information at a glance</b>	<b>42 - 43</b>
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# TAX RELATED PROPOSALS

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- Consistent tax policy will be maintained for next 5 years.
- Introduction of an online managed single Special Goods and Services Tax (SGST) in place of various goods and services taxes and levies imposed on alcohol, cigarettes, Telecommunication, betting and gaming and vehicles to improve the efficiency on tax collection. These taxes account for 50% of the income from taxes and levies.
- Tax laws will be amended to facilitate the mandatory E-filing of all companies with effect from 01 April 2021. Tax Identification Number (TIN) will be mandatory in all tax related transactions.
- Instructions to be issued to ensure the better and transparent management of the provisions for anticipated losses of loans and doubtful loans in calculating taxes of banks and financial institutions.
- Legal provisions relating to establishment of specific time frames for the implementation of rulings and settlement of appeals submitted under the Inland Revenue Act to be strengthened.
- Special Tax Appeal Court will be established to resolve tax appeals.
- High earning and large-scale businesses, bank, and financial institutions to be brought under one Large Taxpayer Unit (LTPU) to operate all their taxes under direct responsibility of the Commissioner General of Inland Revenue.
- Punitive legal provisions including being barred from practicing will be introduced against auditors and private tax consultants who represent the tax payers to prepare and certify fraudulent tax reports.
- Capital gain tax will be calculated on sale price of a property or assessed value of a property whichever is higher.

# B /

## TAX CONCESSIONS



- Concessionary payment plan to be introduced to settle the outstanding dues on Nation Building Tax (NBT) and Economic Service Charge (ESC)
- 50% Income Tax concessions will be given for Companies which will be listing in Colombo Stock Exchange (CSE) before 31.12.2021 and profits of such companies will be taxed at 14% for subsequent three years.



- Profits and income earned by any person from farming including agriculture, livestock, and fisheries are exempt with effect from 01 April 2019 for five years.
- Profits and income earned from providing IT and enabling services by resident or non-resident persons are exempted with effect from 01 January 2020. Enabling services are to be prescribed by regulations.
- Samurdhi Life Savings Account -SLSA will be opened for each Samurdhi beneficiary by the Samurdhi bank and it is mandatory to invest Samurdhi savings in Government Securities. The interest income on such investments will be exempt from all the taxes.
- Income tax on interest income of Welfare societies and institutions will be removed.
- Investments in housing made through Sri Lanka Real Estate Investment Trust (SLREIT) will be exempt from Capital Gains Tax. Further dividends are exempt from Income Tax and also the stamp duty will be reduced up to 0.75% on such investments.
- Tax on dividends of foreign companies (non- resident companies) will be exempted for three years, if such dividends are utilized for reinvestments on expansion of business or invest in Money or stock market or invest in Sri Lanka International sovereign bonds.
- Profits on capital and interest income from investments in International sovereign bonds by Commercial banks, will be exempt from income tax, if the investment is more than USD 100Mn and risk weighted provisioning as per Central Bank regulations will be suspended for three years.
- Investments which exceed USD 10Mn in export industries, dairy, fabric, tourism, agricultural products, processing and Information Technology will be provided with tax concessions upto a maximum period of 10 years under the Strategic Development Law.

- Profits and income from investments in Bonded warehouses and warehouses related to offshore businesses in Colombo and Hambanthota Ports will be exempt from all taxes.
- With effect from 01 January 2021, 5-year tax exemption period will be made available for domestic telecommunication industrialists building telecommunication towers and infrastructure using domestic labour and materials.
- Tax exemption of 5 years will be given to the businesses commenced by individuals qualified with vocational education. The Cost of Funds of funds provided for such start-up capital, provided by banks and finance agencies will be considered as deductible expenditure in the calculation of taxes.
- In order to encourage the private sector institutions which will be standardized under one TVET concept, to enhance their student intake at least up to 50,000, it is proposed to give a tax holiday on their income for a period of five years if those institutions double their intake.
- Strategic investment tax concessions will be provided for a period of 5 years for capital investments of over USD 25 million with the view of facilitating Dairy Industry companies to process milk powder exports instead of importing milk powder.
- To encourage the recycling and re use of material from construction, it is proposed a ten year tax holiday for investments in selected recycling sites.
- Dividends distributed by Commercial hub Enterprises will be exempt with effect from January 1, 2020.
- All aircraft related payments, software licenses and other overseas payments made by Sri Lankan Airlines will be exempt with effect from April 1, 2018.
- Exemption or variation of the applicability of the provisions of the Inland Revenue Act No.24 of 2017, in respect of projects approved under the Strategic Development Projects Act No.14 of 2008.
- A tax holiday of 7 years will be allowed for all renewable energy projects.
- If any commodity has been exempted from VAT at its importation point, It is proposed to exempt from VAT, the domestic production of that particular commodity as well.
- In order to maintain a similar amount as the import expenditure in foreign exchange in domestic banks, the interest income of such deposits will be exempted from taxes.
- It is also proposed to grant a tax break of 7 years for local boat and shipbuilding.

# D / MISCELLANEOUS TAX RELATED PROPOSALS



- Proposed to get businesses and factories with more than 50 employees, to contribute 0.25 percent of the turnover to the proposed insurance fund.
- Proposed to allow the depreciation in 2 years of the capital investments done on latest technology to collect local liquid milk in collaboration with local dairy farmers, enhancements to milk related productions and promotion of liquid milk.
- It is proposed to reduce the import taxes levied on vehicle spare parts required for new production sectors to incentivize entrepreneurs in automobile industries engaged in vehicle repairing and vehicle assembly.
- Certain raw materials such as cement, premix, iron rods, bitumen that cannot be produced domestically will be imported in bulk without import duties, to be used for the construction of mega housing schemes, highways and also to ensure the smooth and continuous availability of such materials for small and medium construction activities at a competitive price.
- It is proposed to exempt import tax on the import of machinery with modern technologies.
- With the aim of incentivizing the strengthening of Banks and Finance Companies, it is proposed to consider the investment expenditure in acquisitions as deductible expenditures.
- It is proposed to implement an insurance scheme through Sri Lanka Export Insurance Corporation with the contribution of an insurance premium of 1 percent of the export revenue of small and medium scale exporters.
- The Related expenditure of the local entrepreneurs who contribute to establish Samurdhi Women's shops will be allowed to deduct such expenditures in the calculation of personal income tax.

- A new legal framework conducive to promote commercial services and investment in Colombo Port Special Economic Zone will be introduced in January 2021.
- It will provide concessions on required taxes and specific goods trade, banking and foreign exchange with the objective of converting the Port City Economic Zone as one of the hubs for investment promotions in the country.
- Legal provisions will be introduced to provide a tax pardon to entrepreneurs thus utilizing funds for any investment facilitated by this budget under the payment of taxes amounting to 1 percent.
- It is proposed to reduce the expenditure on research and development expenses of local entrepreneurs involved with the Institute of Nanotechnology from taxes.

# E /

## TAX RELIEF MEASURES TO FACILITATE POST COVID - 19 ECONOMIC RECOVERY



- (i) Consideration of the income generated from the supply of Health Protective Equipment and similar products by BOI companies on the request of Ministry of Health and Indigenous Medical Services, Department of Health Services, Tri Forces and Sri Lanka Police as "Deemed Exports" and to consider the said quantities for the calculation of 80% export requirement for the tax purposes, to become eligible for reduced tax rates.
- (ii) Waiver of Income tax in arrears, payable by the SMEs as defined in the Inland Revenue Act, No. 24 of 2017, on the assessments issued up to the year of assessment 2018/2019 by the CGIR, where he is satisfied that there is no fraud or willful neglect involved in the disclosure of income or any claim for any deduction or relief.
- (iii) The income tax return furnished by the SMEs for the year of assessment 2019/2020 is proposed to be accepted and additional assessment not to be issued for that year on tax payers, who furnish the Income Tax Returns for the year and pay the tax declared in the Return.
- (iv) A grace period is proposed to be granted to settle the taxes in arrears/default, as agreed with the Legacy Unit, Default Tax Recovery Unit and the Revenue Administration Management Information System (RAMIS) Unit of the Department of Inland Revenue.
- (v) The payment or/and submission of the returns of any tax administered by the CGIR, which is due for the period from March 1, 2020 to June 30, 2020, proposed to be treated as paid or/and submitted on the due date if such payment / submission is made on or before December 31, 2020.

# BUDGET SPEECH SUMMARY

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## MICRO ECONOMIC ROAD MAP

- Maintain an inclusive growth rate of 6% over the medium term
- Control the cost of living by maintaining the inflation rate at around 5%
- Reduce the revenue -expenditure gap of the government annually from 9% to 4%.
- Reduce Public debt from 90% of Gross Domestic Product (GDP) to 70% of GDP.

## UTILIZATION OF FOREIGN LOANS

- The planned annual utilization of foreign loans is approximately USD 1,400Mn
- It is expected to obtain bilateral development loans of approximately USD 400Mn



## TAX POLICY

- Consistent tax policy will be maintained for next 5 years.
- Value Added Tax (VAT) rate of 8% to be continued for businesses with a turnover more than LKR 25Mn per month except for businesses in banking, financial and insurance sectors.

- Introduction of an online managed single Special Goods and Services Tax (SGST) in place of various goods and services taxes and levies imposed on alcohol, cigarettes, Telecommunication, betting and gaming and vehicles to improve the efficiency on tax collection. These taxes account for 50% of the income from taxes and levies.
- Concessionary payment plan to be introduced to settle the outstanding dues on Nation Building Tax (NBT) and Economic Service Charge (ESC)
- Tax laws will be amended to facilitate the mandatory E-filing of all companies with effect from 01 April 2021. Tax Identification Number (TIN) will be mandatory in all tax related transactions.
- Instructions to be issued to ensure the better and transparent management of the provisions for anticipated losses of loans and doubtful loans in calculating taxes of banks and financial institutions.
- Legal provisions relating to establishment of specific time frames for the implementation of rulings and settlement of appeals submitted under the Inland Revenue Act to be strengthened.
- Special Tax Appeal Court will be established to resolve tax appeals.
- Personal Income Tax relief for resident or non- resident individuals but citizens for each year of assessment is LKR 3,000,000 (LKR 250,000 per month) with effect from 01 January 2020.
- WHT for following payments have been removed with effect from 01 January 2020
  - Interest, specified fees, dividend, charge, natural resource payment, rent, royalty, premium or retirement payments made to residents
  - Partners share of a partnership profit
- PAYE tax has been abolished with effect from 01 January 2020.
- Profits and income earned by any person from farming including agriculture, livestock, and fisheries are exempt with effect from 01 April 2019 for five years.
- Profits and income earned from providing IT and enabling services by resident or non-resident persons are exempted with effect from 01 January 2020. Enabling services are to be prescribed by regulations.
- High earning and large-scale businesses, bank, and financial institutions to be brought under one Large Taxpayer Unit (LTPU) to operate all their taxes under direct responsibility of the Commissioner General of Inland Revenue.

- Punitive legal provisions including being barred from practicing will be introduced against auditors and private tax consultants who represent the tax payers to prepare and certify fraudulent tax reports.



## SAVINGS AND INVESTMENT

- Samurdhi Life Savings Account -SLSA will be opened for each Samurdhi beneficiary by the Samurdhi bank and it is mandatory to invest Samurdhi savings in Government Securities. The interest income on such investments will be exempt from all the taxes.
- New Samurdhi enterprise development loan scheme to be introduced by Samurdhi Banks to facilitate the loans at 7% annual interest rate for Samurdhi beneficiaries.
- Income tax on interest income of Welfare societies and institutions will be removed.
- An expenditure relief of LKR 1.2Mn per year of assessment can be claimed when calculating the personal Income Tax on the following payments with effect from 01 January 2020.
  - Health expenditure including contributions to medical insurance.
  - Educational expenditure incurred locally, for such individual or on behalf of his children.
  - Interest paid on housing loans
  - Contributions made to an approved pension scheme
  - Expenditure incurred for the purchase of equity or security
- Non- residents could purchase super luxury condominiums by utilizing foreign currency.
- Investments in housing made through Sri Lanka Real Estate Investment Trust (SLREIT) will be exempt from Capital Gains Tax. Further dividends are exempt from Income Tax and also the stamp duty will be reduced up to 0.75% on such investments.
- 50% Income Tax concessions will be given for Companies which will be listing in Colombo Stock Exchange (CSE) before 31.12.2021 and profits of such companies will be taxed at 14% for subsequent three years.
- Capital gain tax will be calculated on sale price of a property or assessed value of a property whichever is higher.
- Tax on dividends of foreign companies (non- resident companies) will be exempted for three years, if such dividends are utilized for reinvestments on expansion of business or invest in Money or stock market or invest in Sri Lanka International sovereign bonds.
- Profits on capital and interest income from investments in International sovereign bonds by Commercial banks, will be exempt from income tax, if the investment is more than USD 100Mn and risk weighted provisioning as per Central Bank regulations will be suspended for three years.
- Investments which exceed USD 10Mn in export industries, dairy, fabric, tourism, agricultural products, processing and Information Technology will be provided with tax concessions upto a maximum period of 10 years under the Strategic Development Law.
- Profits and income from investments in Bonded warehouses and warehouses related to offshore businesses in Colombo and Hambanthota Ports will be exempt from all taxes.



## NATIONAL SECURITY

- Additional Rs. 20,000Mn will be allocated to tri-forces to fulfil the basic requirements identified.
- Rs. 750 Mn allocated for Ranaviru Seva Authority

## PUBLIC SECURITY

- Additional allocation of Rs.2,500Mn to strengthen the public security.



## TECHNOLOGICAL INFRASTRUCTURE

- A special allocation of Rs. 8,000Mn to expand the technology sector.

## CONNECT SRI LANKA

- Rs.15,000 million will be invested by Telecommunication Development Fund during 2021/2022 for 4G/Fibre broadband coverage for the entire country.
- With effect from 01 January 2021, 5-year tax exemption period will be made available for domestic telecommunication industrialists who will involve in the project.
- 50% of the Telecommunication Development Levy will be applied on investments in these developments in telecommunication.

## TECHNO PARKS

- A techno- entrepreneur led economy will be created to contribute to the increase of exports and foreign earnings from the technology field and broaden the knowledge and professional services to the national economy within the next 2 years.
- It is expected that the establishment of Technology centred investments and allied service industries, which transforms into high income employment opportunities for our young men and women.
- Proposed to establish 5 fully fledged plug and play Techno Parks in Galle, Kurunegala, Anuradhapura, Kandy and Batticaloa districts.

- Proposed to allocate Rs.10,000 million to develop these Techno Parks as eco-friendly new cities connected to the expressway network and other infrastructure facilities.
- A new University will be established to cater to Port and Aviation Technology Engineering subjects by 2023 in Deniyaya in the Matara District.



## INVESTMENT IN PUBLIC HEALTH

- Proposed to provide an additional allocation of Rs 18,000 million for the expansion of maternity and child clinics, dispensaries and adult service centers, laboratory services, hospitals and research institutes with the required human resources to maintain a people centric health service.
- A new insurance scheme will be created to support those who temporarily loose livelihoods due to the quarantine process related to epidemics including COVID.
- Proposed to get businesses and factories with more than 50 employees, to contribute 0.25 percent of the turnover to the proposed insurance fund.
- This insurance scheme will be used for employees employed at retail and wholesale shops with more than 5 employees and hotels.
- A COVID Insurance Scheme will be implemented with the assistance of the Government in parallel to the Agrahara Insurance Scheme for all public services.

## MANUFACTURING OF MEDICINES

- Proposed to provide bank and financial facilities on Treasury guarantees to increase the production capacity of the State Pharmaceutical Manufacturing Corporation to expand the production of essential pharmaceuticals.
- A modern investment zone will be established for local and foreign private investors under the Strategic Development Act.



## NUTRITIONAL DEVELOPMENT OF INFANTS AND PREGNANT MOTHERS

- An additional allocation of Rs. 1,500 million will be provided to purchase from farmers maize, soya, green gram and to store the same to increase Thriposhha production.

## DISTANCE EDUCATION

- The learning methodologies within schools will be formalized
- The provision of internet facilities to schools will be expanded
- The E-Thaksalawa learning portal will be updated along with the strengthening of the provincial IT education centers.
- To minimize the difficulties faced by students in rural and non "National Schools", due to shortage of teachers, and ensure the provision of continuous school education in the face of the COVID-19 epidemic, the 'Guru Gedara' education channel will be made available to all students by providing television sets to schools in difficult areas. Allocation Rs.3,000 million
- All education institutes, education reforms including the expansion of the syllabi in line with the contemporary requirements, regulation of teacher education and training, and examination procedures are planned to be regulated under a national education policy.

## OPPORTUNITIES FOR VOCATIONAL EDUCATION

- The island-wide network of these new technological and technical universities will be strengthened by modernising the technical colleges to be attractive to the young men and women, under the "one TVET" concept within a formal regulatory framework, by converting these institutes into degree awarding entities in parallel to the expansion of opportunities for university education.
- Action will be taken to increase the current annual intake of 100,000 students to state-run vocational education institutes up to 200,000, which requires training instructors, provision of technical equipment and to maintain and modernize buildings.
- Proposed to provide the instructors and staff of the vocational education institutes with incentives based on their performance and to provide a monthly bursary of Rs. 4,000 for students in the vocational education system.
- Proposed to allocate Rs. 3,000 million as an additional financing for this purpose.
- Nursing schools will be upgraded to degree awarding institutions to expand the professional education of nursing and nursing services.
- Proposed to provide loans of Rs.500,000 at an interest rate of 4 percent as start-up capital to support the young men and women, who start their own businesses on the successful completion of vocational education. This loan will have a grace period of one year for both principal and interest, with a further 4 years to settle the loan.

Accordingly, these entrepreneurs will be facilitated to receive the opportunity to pay an instalment together with interest less than Rs.12,000. In order to ascertain that the said loans are invested on the approved business, an annual commitment fee of 0.25 percent will be charged for follow up and extension services. Further, tax exemption of 5 years will be given to these businesses. The Cost of Funds of funds provided for such start-up capital, provided by banks and finance agencies will be considered as deductible expenditure in the calculation of taxes.

- In order to encourage the private sector institutions which will be standardized under one TVET concept, to enhance their student intake at least up to 50,000, it is proposed to give a tax holiday on their income for a period of five years if those institutions double their intake.

## EXPANSION OF UNIVERSITY FACILITIES

- Proposed to set up a nonresident City University per District, targeting specific areas of high demand for employment opportunities.
- Proposed to convert existing vocational education or other government owned buildings and infrastructure facilities in the Kalutara, Ampara, Puttalam and Nuwara Eliya districts into nonresident City Universities. Rs. 1,000 million will be allocated for this purpose.

## SPORTS

- 10 sports schools will be developed with synthetic race tracks in order to attract the youth to sports and extra curricular activities through sports schools as well as youth community organizations associated with cultural centres.
- Proposed to allocate additional provisions amounting to Rs. 2,000 million as the initial investment out of the larger medium term investments to be made during 2021-2024 aimed at establishing a sports complex for the 2032 Olympics, expansion of female participation, in national and international sports events and establishing a sports economy of USD 1,000 million by 2025. This programme also includes establishment of synthetic tracks in Kurunegala, Jaffna, Torrington, Bogambara and Diyagama sports complexes and establishment of a modern sports city in Sooriyawewa with information and modern technology facilities.



## WALKING TRACKS AND CONNECTED COMMON AMENITIES

- Planned to establish urban walking tracks and associated common amenities in municipal and urban council areas island wide in an eco-friendly manner co existing with the bio diversity of each these areas.
- Rs. 2,000 million will be allocated to develop these facilities.

## TOURISM INDUSTRY

- Proposed to extend the concessions and recovery of loans granted under the re-financing facilities of the Central Bank of Sri Lanka until September 30, 2021. The Banks will be provided with a Treasury guarantee covering 50 percent of such loans.
- Necessary amendments will be made to simplify the taxes and fees levied by the Local Government Institutions on tourism with an upper cap.

## ARCHAEOLOGICAL AND CULTURAL HERITAGE

- A strong legal framework for archaeological heritage management has been formulated.
- In addition to the budgetary allocations for the rehabilitation of archeological and cultural centers, an additional allocation of Rs. 50 million will be made to improve the basic infrastructure required for temples in remote areas.



## FOREIGN EMPLOYMENT

- An integrated programme will be implemented with the participation of vocational training institutes, Foreign Employment Bureau and foreign employment agencies with the aim of directing skilled workers for foreign employment and diversifying the foreign employment market.
- A contributory pension scheme will be introduced for workers engaged in foreign employment.
- Proposed to pay Rs. 2 per dollar above the normal exchange rate for the foreign exchange remittances sent by foreign workers to banks in Sri Lanka.



## AGRICULTURE

- A guaranteed price will be provided to encourage the farmers to cultivate Rice, Maize, Kurrakkan, Sesame and black gram.
- Fertiliser for paddy will be provided free of charge and a 50 Kg bag of fertiliser for other crops would be given at a concessionary price of Rs. 1,500.

- Parallel to this organic crop cultivation zones will be developed by encouraging the use of organic fertiliser with high quality mixed fertiliser.
- Proposed to amend the Agrarian Development Act No 46 of 2000 to empower the District Secretaries to direct the use of barren and abandoned paddy and other agricultural land for productive agricultural purposes.
- Proposed to uphold the policy to limit the importation of all agricultural products which can be produced locally. Budgetary provisions have been made available to provide seeds, fertiliser and the expansion of extension services in addition to the provision of a guaranteed price to encourage cultivation of B and Red Onions, Potatoes, dry and green chilies.
- Concession will be provided on customs duties and also support the extension of credit facilities to acquire cold room facilities for the preservation of fruits and vegetables.
- A support scheme is proposed to promote the cultivation of ginger and turmeric as additional crops in coconut and rubber lands.

## LOCAL DAIRY INDUSTRY

- It is planned to import dairy cattle for the development of Rideegama and Bopaththalawa farms of the National Livestock Board as cattle breeding farms and to cultivate nutritious pasture, maize, sorghum crops in the livestock farms.
- Proposed to increase the government contribution to develop small and medium scale dairy farms through extension services which supports the dairy cattle for breeding.
- A loan scheme will be implemented to provide special loan facilities up to Rs. 500,000 at an interest rate of 7.5 percent per annum for the purchase of dairy cattle, setting up of ecofriendly cattle sheds and purchase of equipment for small and medium scale dairy farms.
- Proposed to allow the depreciation in 2 years of the capital investments done on latest technology to collect local liquid milk in collaboration with local dairy farmers, enhancements to milk related productions and promotion of liquid milk.
- Strategic investment tax concessions will be provided for a period of 5 years for capital investments of over USD 25 million with the view of facilitating these companies to process milk powder exports instead of importing milk powder.



## FISHERY ECONOMY

- Rs.200 million allocated for the development of Fisheries Farm Zones with infrastructure facilities in line with the environmental standards in the Districts of Batticaloa, Jaffna, Puttalam and Mannar which are suitable for fish production such as prawns, lobster, carp, tilapia and modha.
- Tax levied on the importation of dried fish, Maldivian fish and canned fish will be maintained at a high level to encourage domestic production.
- It is proposed to provide facilities in line with green European standards at the Kudawella, Beruwela, Devinuwara, and Galle fishery harbors and develop the Point Pedro, Oluvil, Gandara Fishery Harbors and anchorages at the Kapparahotta, Dodanduwa and in Hikkaduwa.
- It is proposed to further increase the provisions for developing facilities of fishery harbors and modern fishing vessels and for increasing deep sea fishery production during 2021-2023 medium budgetary frame work.

## PLANTATION

- Special attention has been given to use new techniques in tea cultivation, mitigate the impact of adverse weather and to enhance the usage of organic fertilizer.
- Sugarcane cultivation will be promoted in Kantale, Badulla, Monaragala to enable sugarcane farmers to earn a higher income.
- Expand programmes will be implemented under the Ministry of Plantation Industries with the aim of establishing export, cultivation and processing zones for Ceylon True Cinnamon. Diversification in the plantation is included in the Government priority of revitalising the plantations economy based on tea, coconut, rubber and cinnamon.

- Crops such as black gram, green gram and chilli will be cultivated during the first phase of cultivation of cashew. Sri Lanka Cashew Corporation will provide the extension service to promote cashew cultivation in Mannar and Puttalam districts amongst the small land owners.
- Relief on custom duties and financing facilities will be provided to obtain land and modern equipment for entrepreneurs investing in value additions to local crops such as pepper, cloves, cardamom and coffee suitable for the export market.
- Proposed to provide additional allocation of Rs.2,000 million for the development work to be undertaken in the plantation sector.

## REFORM OF LARGE SCALE PLANTATION COMPANIES

- Steps will be taken to encourage plantation companies that have become more successful and to review the privatization agreements of unsatisfactory plantation companies and to setup alternative investments that can be commercially developed.
- The daily wages of plantation workers will be increased to Rs.1,000/- from January 2021.

## ROADS

- A separate state company has been formed with the vesting of expressways and related assets, to ensure the development and maintenance of the expressway network in the country. Steps have been taken to extend the marine drive up to Moratuwa.
- Proposed to expand the railway network in Colombo and suburban areas and to expand the Kelani Valley Railway up to Awissawella which will complement the development in the urban highway network.
- Proposed to fast track the implementation of the 3 years Road Development Programme which cover all 25 districts.

## ELECTRICITY

- It is planned to augment the capacity of the Lakvijaya Coal Fired Power Plant by 300 MW and to establish 2 natural gas power plants with a generation capacity of 600 MW. It is also planned to convert the

Kerawalapitiya power plants as natural gas power plants and to establish an additional natural gas power plants with private ownership.

- Proposed to amend the Public Utilities Commission Act and Ceylon Electricity Board Act to allow rapid implementation of projects.



## DEVELOPMENT OF RENEWABLE ENERGY

- Renewable energy will be developed to save the foreign exchange spent on the importation of fuel for power generation. Up to now 300 MW of solar energy is added to the national grid and it is expected to add 1,000 MW capacity through local investments within the period 2021 – 2023.
- Proposed to add a capacity of 500 MW to the grid, by providing solar panels generating 5 kW to 100,000 houses of low income families, through the loan schemes from the Asian Development Bank and the Indian Line of Credit, to supplement the government’s investments in the sector.
- Loans at an interest rate of 4 percent will be provided in this regard. This will facilitate the low income families to save the expenditure on electricity and also earn an extra income by supplying excess energy to the national grid. Further, it is proposed to invest on installation of solar panels on roof tops of religious places, public institutions, hospitals, schools and defence establishments
- Private entrepreneurs at rural level will be facilitated to install Solar Power Plants connected to 10,000 transformers under the theme “Gamata Balagarayak – Gamata Vyavasakayek.
- Proposed to increase renewable energy capacity to 1,000 MW by the expeditious implementation of both off shore wind and floating solar power plants exceeding 100 MW, with incentives provided by the Board of Investment.
- A tax holiday of 7 years will be allowed for all renewable energy projects.

- Capital Grants of Rs. 150,000 will be provided to 10,000 small and medium scale commercial agro entrepreneurs, with agricultural wells to install Solar power operated water pumps.
- It is proposed to provide electricity either through Solar energy or rural electricity generation schemes and to ensure the objective of “electricity for all” by the end of 2021. Rs.750 million allocated in this regard.

## IRRIGATION

- Allocations are made in the 2021-2023 Medium Term Budgetary Framework to rapidly complete the Uma Oya Multi-purpose Irrigation Project and hydro power plants, to enhance the irrigation facilities in Central and North Western provinces through the expansion of Moragahakanda- Kalu Ganga related irrigation system and Hurulu Oya irrigation Scheme.
- Small and medium sized tanks will be rehabilitated in agricultural areas to improve the water stock to support the farmers. An additional allocation of Rs. 1,000 million allocated in this regard.



## WATER FOR ALL NATIONAL PROGRAMME 2021-2024

- Under the “Water for All” national plan, it is planned to invest Rs. 1 trillion (Rs. 1,000 billion) in 2021-2024 in 1,000 community water projects, 171 major projects aimed at enhancing the production capacity, new water supply schemes and expedite ongoing projects.
- 40,000 km of pipes will be laid throughout the country to provide pipe-borne drinking water to an additional 3.5 million families.



## FOREIGN TRADE AND THE NATIONAL ECONOMY

- Creating markets in India, China and Japan for Sri Lankan products such as Tea, apparel, rubber products, cinnamon, pepper, gems and electrical appliances.
- Import of high technology and equipment of developed countries as well as unique raw materials and intermediate products that cannot be manufactured in the country will be allowed which could result in development of high value addition exports.
- Bilateral agreements will be formulated to expand the market for exports of our country's specific agricultural products such as tea, cinnamon, pepper, traditional ornaments and consumer goods, as well as toxic free vegetables, grains and fruits.
- A balanced trade policy yielding long term return will be formulated to increase the export earnings of industrial products and to save foreign exchange through import substitution that could be produced locally.
- It is proposed to implement the following proposals.
  - To limit importation of agricultural commodities except the items that cannot be produced domestically (negative List).
  - To impose the Special commodity levy to balance the supply and demand of domestic production for selected agricultural products
  - To impose CESS to provide the required protection on the imports and exports of domestic production
- To remove import taxes on the raw materials not available in the country, machineries and equipment with modern technology, to boost exports, and also to encourage domestic industries to produce value added goods
- To classify all imports other than the above, under three categories of 0, 10 and 15 percent.
- If any commodity has been exempted from VAT at its importation point, it is proposed to exempt from VAT, the domestic production of that particular commodity as well.
- In order to make import and export procedures more efficient the officials of required regulatory bodies, will be assigned to the Department of Import and Exports to provide the required services.
- To ban the importation of batik products under national sub headings in order to develop batik and related fashions as a national industry.
- In order to develop the local garment industry as a local and international garment manufacturing hub with high quality garment and leather products demanded by foreigners and tourists, relax the import and to implement the new tariff system.
- To develop the Rathnapura International Gem Industry City and enhance the gem and jewellery industry.
- In order to encourage the exports of multi-national companies which are import based for requirements of the domestic market, it is proposed to reduce the tax imposed on their dividends by 25 percent in 2021 and 50 percent in 2023 under the condition that they increase their exports by 30 percent and 50 percent in the respective years.
- In order to maintain a similar amount as the import expenditure in foreign exchange in domestic banks, the interest income of such deposits will be exempted from taxes.
- Development of untapped industries such as mineral sand, phosphate, fertilizer and graphite as export industries with high value. To develop the latent industries such as mineral sand, phosphate, fertilizer and graphite as high value export industries, It is proposed to reduce the expenditure on research and development expenses of local entrepreneurs involved with the Institute of Nanotechnology from taxes. It is proposed to allocate Rs. 2,000 million to initiate the registration of the Sri Lanka identity of these products.

- Provide investment incentives for rubber and coconut related industries, building materials and office equipment and furniture as major industries. It is proposed to provide incentives for investments on household needs as well as coconut related industries including brooms, ekel brooms, rugs and rubber related products including agricultural and consumer needs, building materials, office furniture, to support them as main industries.
- Proposed to provide separate docks, dockyard access facilities and long-term credit facilities to promote boat and shipbuilding activities which has high development prospects due to the rising demand in the fisheries, tourism and shipping sectors and the high production potential of local manufacturers. It is also proposed to grant a tax break of 7 years for local boat and shipbuilding.

## FOREIGN ECONOMIC RELATIONS

- It is proposed to restructure the Ministry of Foreign Relations and Diplomatic Missions abroad to go transcend its traditional diplomatic endeavours.
- Allocate Rs. 750 million to take necessary steps to overcome the barriers faced by our entrepreneurs in order to utilize market opportunities presented in the emerging Asia- Pacific region, Africa, the Middle-East and Western countries.

## ENGAGING PUBLIC ENTERPRISES IN THE MANUFACTURING PROCESS

- Most enterprises except those that have a strategic importance such as Sri Lankan Airlines must be transformed to reduce their dependence on state banks and treasury guarantees and thereby to reduce the burden on the government.
- It is expected that with public investment reaching over Rs, 1,000 billion, that state sector construction and service entities will also be participating in the implementation of the envisaged work, which will reduce the transfers of both recurrent and capital nature to the public enterprises.
- It is proposed to implement various development programmes through public enterprises amounting to at least twice as the budget provisions allocated to them.

- Public Institutions should refrain from under estimating the procurement process by carrying out the immediate role of providing sub contracts to the private sector.



## AUTOMOBILE INDUSTRY

- It is proposed to reduce the import taxes levied on vehicle spare parts required for new production sectors to incentivize entrepreneurs in automobile industries engaged in vehicle repairing and vehicle assembly.
- It is proposed to develop railway compartment production as a domestic industry.

## CONSTRUCTION INDUSTRY

- Government has taken necessary action to simplify various institutional approvals and license procedures pertaining to the construction industry in order to make the supply chain more efficient.
- The special presidential task force has prepared an estimate of raw materials for implementing projects such as housing, roads, irrigation and water supply. Accordingly, RDA will prepare a special programme to obtain raw materials such as rock, sand, soil etc. from identified locations, minimizing the damage to the environment. All identified excavation centers will be assigned to the RDA and they will supply those materials to the construction industry without a middle-man.
- Certain raw materials such as cement, premix, iron rods, bitumen that cannot be produced domestically will be imported in bulk without import duties, to be used to for the construction of mega housing schemes, highways and also to ensure the smooth and continuous availability of such materials for small and medium construction activities at a competitive price.

- Vocational training institutions have planned to implement fast tracked training programmes facilitating the training of skilled workforce to match the labor requirement of the construction industry.
- To ensure continuous payment pertaining to the contractors engaged in government sector projects, facilities will be proposed to be provided to obtain ninety percent of the value of the certified bills from the banks.
- It is proposed to exempt import tax on the import of machinery with modern technologies.
- It is further proposed to implement a treasury guarantee scheme for leasing companies to obtain the leasing payments for purchase of equipment required by small and medium-term entrepreneurs.
- To encourage the recycling and re use of material from construction, it is proposed a ten year tax holiday for investments in selected recycling sites.
- Further, it is proposed to merge the finance companies functioning under commercial banks with the banks in order to strengthen the banking sector.
- With the aim of incentivizing the strengthening of Banks and Finance Companies, it is proposed to consider the investment expenditure in acquisitions as deductible expenditures.
- It is further proposed to amend the necessary laws to enable commercial banks to also act as investment banks with the view to enhancing the diversification of the finance sector.
- It is proposed to establish National Development Banking Corporation – NDBC by merging Housing and Investment Bank, Housing Development Real Estate Limited and Regional Development Bank.
- In order to assist the helpless depositors of shut down companies such as ETI, the Government will facilitate those depositors under the deposit fund held with the Central Bank, supported by the People’s Bank.

## URBAN TOWNSHIPS

- The Urban Development Authority has already commenced construction of fully fledged housing complexes amounting to 50,000 houses for low and middle level income earners. It is proposed to implement a loan scheme with an annual interest of 6.25 percent with a payback period of 25 years to facilitate the acquisition of those houses.



## FINANCE SECTOR REFORMS

- It is recommended to completely restructure the Department of Supervision of Non-Bank Financial Institutions of the Central Bank and to formulate a robust organizational structure to regulate finance companies
- It is proposed to merge the subsidiary finance companies that have not been cancelled by the Central Bank of Sri Lanka with the parent company.



## JUSTICE AND LEGAL REFORMS

- To allocate Rs. 20,000 million for a fast-tracked intensive 3 year programme aimed at increasing the number of Justices and staff in the entire legal system including in high courts and magistrate courts and expanding the required infrastructure to rapidly solve pending cases.
- It is proposed to start the provision of the required building facilities for the Supreme Court and Court of Appeal due to the expansion of Superior Court Complex within this year itself.
- It is expected to present bills on amendment of 60 Acts relating to existing Commercial Law, Civil Law and Criminal Law to the Parliament within the first 3 months of 2021, with the contributions received from 10 specialist consultant teams.
- It is planned to present to the Parliament required amendments to the Companies Act of 2007 considering the timely needs therefor, by January next year.

## PUBLIC SECTOR REFORMS

- 1) A regulatory framework will be introduced to provide commercial freedoms to the public enterprises in various sectors.
- 2) The Finance Act will be amended to introduce a legal framework to allow public sector employees of closed services to work in other institutions according to their service requirements within the existing conditions of respective services.
- 3) Five existing institutions related the tourism sector will be reorganized under the Tourism Promotion Authority and 4 existing institutions related to coconut industry will be reorganised as the Coconut Cultivation and Allied Industries Development Authority under an integrated institutional structure
- 4) It is proposed to integrate the institutes related to import of fertilizer and distribution.



## CONCESSIONS FOR PUBLIC SERVANTS

- 1) A special loan scheme will be provided for public servants to obtain solar powered electricity.
- 2) It is proposed to appoint public servants by giving preference to the districts of residence.
- 3) Permission will be granted for non-executive office employees of the public service to engage in other jobs or employment after office hours and those who seek foreign employment to be granted leave for two years.
- 4) Public servants will be granted housing and property loans at a interest rate not exceeding 7 percent.

## MEASURES TO PROMOTE SMALL AND MEDIUM SCALE EXPORTS (TIEP SCHEME)

- 1) TIEP scheme to be implemented to export high quality goods through high value addition to local inputs by providing temporary import facilities for raw materials which are not available in Sri Lanka, spare parts, processing and packing materials and labels, stickers, catalogues and brochures to promote the products of direct and indirect exporters.
- 2) It is proposed to implement an insurance scheme through Sri Lanka Export Insurance Corporation with the contribution of an insurance premium of 1 percent of the export revenue.



## ENVIRONMENT

- 1) The single use polythene and plastics will be banned with effect from 01 January 2021.

## “SURAKIMU GANGA” NATIONAL ENVIRONMENT PROGRAMME

Additional Rs.200 million is provided for priority programs such as prevention of irregular disposal of sewage and regulation of sand mining.

## FOREST CONSERVATION

- It is proposed to increase the forest coverage by 15,000 acres using the land available on road sides, schools, government and private offices.
- It is proposed to strengthen the surveillance by the Sri Lanka Air Force to prevent illegal deforestation. The identified deforested lands to be reforested with the assistance of the Sri Lanka Air Force.

## CONTRIBUTORY PENSION SCHEME FOR SELF-EMPLOYMENT

- It is proposed to introduce a contributory pension scheme for self-employed persons so that a pension will be available to them at the end of 65 years of age.

## COMPULSORY RETIREMENT AGE

- The retirement age for both men and women is increased upto 60 years.



## NETWORK OF SAMURDHI WOMEN'S SHOPS

- 1) It is proposed to establish a shop in all Grama Niladhari divisions and to promote female entrepreneurs from chosen Samurdhi families.
- 2) The Related expenditure of the local entrepreneurs who contribute to establish these shops will be allowed to deduct such expenditures in the calculation of personal income tax.
- 3) It is proposed to provide the contribution of Co-operative Development Fund in order to strengthen the network of Co-operative shops.
- 4) It is proposed to expand the Lanka Sathosa super market network to urban and semi-urban areas in collaboration with wholesale trade using warehouses of Sathosa and Food Commissioner's Department.

## VILLAGE ASSISTANCE

The following village assistance proposals are submitted.

- 1) To provide pipe borne water connections to 450,000 houses – Additional allocation Rs.5,000 million in next three years.
- 2) To construct 50,000 kilometers of rural roads – Allocation Rs.20,000 million
- 3) To expedite the construction of 10,000 rural bridges – Allocation Rs.7,000 million
- 4) To provide the required teachers and basic facilities to the rural schools along with the 1,000 National School Development Programme. – Allocation Rs.3,000 million
- 5) To improve rural hospitals, dispensaries, and maternal clinics. – Allocation Rs.5,000 million
- 6) To develop rural school playgrounds and rural sports societies, encourage school children to engage in sports, improve regional sports activities, promote volleyball, and to implement development activities to encourage women's participation in sports. – Allocation Rs.3,000 million.
- 7) To upgrade household economies of 200,000 Samurdhi families – Allocation Rs.10,000 million.
- 8) To support villages engaged in traditional industries to expand their production and to facilitate access and attraction of markets for the special goods. – Allocation Rs.2,000 million
- 9) To establish elephant fencing and trenches, and also to construct tanks in the wildlife areas and to empower the communities to engage in community safeguard mechanisms – Allocation Rs.3,000 million.
- 10) To safeguard sanctuaries and elephant living areas
- 11) Containers to be provided to rural agrarian, farmer and community organisations in order to store their harvest safely in villages prone to wildlife attacks.
- 12) Waste management in Pradeshiya Sabhas in order to prevent the wildlife from being attracted to villages due to dumping of garbage in village boundaries close to wildlife. – Allocation Rs.3,000 million.
- 13) To implement a credit certification scheme for development of small and medium scale enterprises in rural areas.
- 14) To maintain roads in Pradeshiya Sabha areas without adequate revenue, to maintain cleanliness in Sathipola and common areas, disposal of wastage and provision of community sanitary facilities. – Allocation Rs.3,000 million.

## **COLOMBO PORT CITY SPECIAL ECONOMIC ZONE**

- A new legal framework conducive to promote commercial services and investment in this Special Economic Zone will be introduced in January 2021.
- It will provide concessions on required taxes and specific goods trade, banking and foreign exchange with the objective of converting the Port City Economic Zone as one of the hubs for investment promotions in the country.

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## **GENERAL**

- 1) Legal provisions will be introduced to provide a tax pardon to entrepreneurs thus utilizing funds for any investment facilitated by this budget under the payment of taxes amounting to 1 percent.

# RECENT CHANGES ANNOUNCED BY THE DEPARTMENT OF INLAND REVENUE

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## A) EMPLOYMENT INCOME – KEY CHANGES

### 1) PAYE scheme was abolished, with effect from 01 January 2020

However, on request of the employees and as a convenience to the employees the tax deduction under PAYE scheme was permitted for the period from 01 January to 31 March 2020.

To accommodate the tax deductions for the period from January to March 2020, DIR has published cumulative tax tables and it was required to deduct the taxes according to those tables.

### 2) A new tax scheme named “APIT” (Advance Personal Income Tax) has been introduced, with effect from 01 April 2020

The APIT is introduced in lieu of PAYE tax on an optional basis for **tax resident** individuals who are **citizens** of Sri Lanka. The employer is required to deduct APIT and remit to Department of Inland Revenue (DIR) depending on tax residency and citizenship of the employee. Requirement to deduct APIT from regular profits from the employment is summarised in below table:-

Status of the Employee	Consent of Employee for APIT deduction	APIT Table	Availability of Personal Relief LKR 3 Mn
Tax resident and citizen of Sri Lanka	Required	Table 01	Available
Tax resident but not a citizen of Sri Lanka	Not required	Table 01 / 05	Available
Tax non-resident but citizen of Sri Lanka	Not required	Table 01 /05	Available
Tax non-resident and not a citizen of Sri Lanka	Not required	Table 04	Not available

To facilitate the tax deduction on employment income under the APIT scheme DIR has published 7 tables with a guideline. (The tables can be downloaded from the IRD web portal

[http://www.ird.gov.lk/en/publications/sitemap/apit\\_tax\\_tables.aspx?menuid=1503](http://www.ird.gov.lk/en/publications/sitemap/apit_tax_tables.aspx?menuid=1503)

### 3) The tax free allowance (personal relief) was increased and the tax rates on personal income slabs have been revised upwards with effect from 01 January 2020.

#### For last 3 months of year of assessment 2019/2020

Up to LKR 750,000 Personal Relief  
Next LKR 750,000 Taxed at 6%  
Next LKR 750,000 Taxed at 12%  
Balance Taxed at 18%

#### From the year of assessment 2020/2021 onwards

Up to LKR 3Mn Personal Relief  
Next LKR 3Mn Taxed at 6%  
Next LKR 3Mn Taxed at 12%  
Balance Taxed at 18%

Accordingly, with effect from 01 January 2020, tax on employment income is applicable only if the monthly remuneration exceeds LKR 250,000 for resident individuals. (i.e: if the remuneration is more than LKR 3 Mn per annum).

- The personal relief is available only for **resident** individuals and non-resident individuals who are **citizens** of Sri Lanka. Personal relief is not available for non-resident individuals who are non citizens. However, the progressive tax rates ranging from 6% to 18% is applicable for non- residents as well. (i.e without the relief on first LKR 3 Mn).

#### 4) An expenditure relief has been introduced with effect from 01 January 2020

In addition to the aforementioned personal relief an expenditure relief of LKR 1.2 Mn per year of assessment (Y/A) was introduced and such relief consist of following;

- Health expenditure including contributions to medical insurance;
- Educational expenditure incurred locally, for such individual or on behalf of his children.
- Interest paid on housing loans
- Contributions made to an approved pension scheme
- Expenditure incurred for the purchase of equity or security

Accordingly, if a **resident** and **citizen** employee is of the view that he can claim such expenditure relief for a year of assessment, it is advisable to avoid APIT payments and go on self - assessment tax payment basis as the expenditure relief is not accommodated in the APIT tax tables published.

Tax free monthly Employment Income without expenditure relief	- LKR 250,000
Tax free monthly Employment Income with maximum expenditure relief	- LKR 350,000

#### 5) Retirement Benefits

##### Retirement benefits upto 31.12.2019

First LKR 2,000,000 or 5,000,000 - exempt  
Next LKR 1,000,000 - 5%  
Balance - 10%

##### Retirement benefits from 01.01.2020

First LKR 10,000,000 - exempt  
Next LKR 10,000,000 - 6%  
Balance - 12%

#### 6) Requirement to open income tax file and submit Income Tax Returns.

The deduction of taxes under the extended PAYE scheme for the period from January to March 2020 or under APIT scheme with effect from 01 April 2020 is not considered as final tax. (i.e it is not a tax deduction at source).

Hence employees who do not have income tax files opened with the Department of Inland Revenue are required to open Income Tax file and file Income Tax Returns by due dates.

Accordingly, the employees whose taxes were deducted under the extended PAYE scheme and APIT scheme are required to file Income Tax Returns starting from the year of assessment 2019/2020.

Further such employees need to file Statement of Estimated Tax (SET) payable with the Department of Inland Revenue by 15th August 2020 and Pay Instalment Payments (IP) due as per income tax payable disclosed in SET.

## B) OTHER IMPORTANT CHANGES MADE TO TAXATION OF INDIVIDUALS – 2019/2020

- Income Tax Computation for Year of Assessment 2019/2020 should be segregated into **first period** (1st April 2019 to 31st December 2019) and **second period** (1st January 2020 to 31st March 2020)

Different sources of Income of an individual, reliefs and qualifying payments should be segregated between **first period** and **second period** as follows.

Description of Item	Basis of Segregation between first & second periods
Employment Income	On actual basis as per T 10 certificate
Business Income	Pro rata basis - 3/4th First Period - 1/4th Second Period
<b>Investment Income</b> Interest Income (Including Interest Income of Senior Citizen) Rent Income, Dividend Income and other Investment Income	On actual basis or pro rata basis ( ie 3/4th First Period and 1/4th Second period ) On actual basis
Reliefs - Personal Relief - First Period LKR 375,000 - Second Period LKR 750,000	Limited to <b>aggregate Assessable income</b> but not available against <b>Capital Gains</b> . Any un deducted Personal relief in a period can be deducted from other period subject to following limitations. * Un deducted Personal Relief relating to <b>Second Period</b> should not be deducted against Employment Income of <b>First Period</b> from which PAYE tax has been deducted. * Un deducted Personal Relief is not deductible and should be ignored when there are <b>Final Withholding Payments (Eg: WHT deducted Interest Income and Dividend Income)</b> available in the <b>First Period</b> and <b>exempt amounts</b> available in the <b>Second Period</b> .
Employment Relief - First Period LKR 525,000 - Second Period - NIL	Un deducted Employment Relief can be deducted from employment income of <b>Second Period</b> .
Rent Relief	25% of total rental income is available as a relief for <b>each period</b> .
Senior Citizen Interest Relief First Period – Upper Limit – LKR 1,500,000 Second Period – Not available	Upper limit is LKR 1,500,000 subject to total interest income of <b>First Period</b> . Not available for <b>second period</b> .
Foreign Service Income Relief First Period – Upper Limit – LKR 15,000,000 Second Period – Relief not available	Available to individual or a partner of a partnership. Upper limit is LKR 15,000,000 subject to total amount of Foreign service income for <b>First Period</b> . Foreign service income is exempt in the <b>second period</b> .

Description of Item	Basis of Segregation between first & second periods
<p>Expenditure Relief</p> <p>First Period – Not available</p> <p>Second Period – Upper limit LKR 300,000</p>	<p>Proposed expenditure Relief upper limit is LKR 300,000/- for the <b>second period</b>.</p>
<p><b>Qualifying Payments (QP)</b></p> <p>Donation in money to approved charitable institutions</p> <p>Donation in <b>money or otherwise</b> to government or any specified institution.</p> <p>Un deducted QP brought forward under IR Act No 10 of 2006</p>	<p>Approved charity donations deductibility is subject to 1/4th of Total Assessable Income or LKR 75000 or amount donated whichever is lower</p> <p>All QP un-deducted balances cannot be carried forward</p> <p>All QP can be deducted from any period</p>

### Income Tax Rates applicable for Individuals – 2019/2020

Income Tax Rates - <b>First Period</b>	<p>Taxable Income - First 450,000 @4%</p> <p>- Next 450,000 @8%</p> <p>- Next 450,000 @12%</p> <p>- Next 450,000 @16%</p> <p>- Next 450,000 @20%</p> <p>- On balance amount @ 24%</p>
Income Tax Rates - <b>Second Period</b>	<p>Taxable Income - First 750,000 @6%</p> <p>- Next 750,000 @12%</p> <p>- On balance @ 18%</p>
Income tax on business income consisting of betting and gaming, manufacture and sale or import and sale of liquor or tobacco products.	40%

## C) CHANGES MADE TO WITHHOLDING TAX AND INTRODUCTION OF ADVANCE INCOME TAX

### 1) Withholding Tax

WHT should be deducted from all payments made to **Non- Resident persons and some specific payments made to Resident persons** (other than exempt amounts) if such payments **has a source in Sri Lanka**. Refer section 73 of the Inland Revenue Act No24 of 2017 (IR Act) for payments with a source in Sri Lanka. If a lower WHT rate is granted under Double Tax Avoidance Agreement (DTAA) with the country of residence of Non-resident person, such lower WHT rate prevails.

Description of Payment	WHT Rate	Applicability	Explanation
Interest and discounts paid by any person other than BFI	5%	Non- Residents (NR)	Payments made to persons outside Sri Lanka is exempt from WHT.
Dividends	Nil	Not Applicable (NA)	Non residents – Exempt Residents – Liable to tax at the applicable rate
Charge	14%	NR	Final Withholding Payment (FWP) No further tax liability for NR
Natural Resource Payment	14%	NR	FWP
Rent	14%	NR	FWP
Royalty	14%	NR	FWP
Premium	14%	NR	FWP
Retirement Payment	14%	NR	FWP
Other similar payments to NR	14%	Residents (R) and NR	FWP
Winnings from a lottery, reward, betting or gambling.	14%		Winnings from a lottery up to Rs.500000.00 is exempt. Once WHT is deducted these amounts are not liable to income tax in the hands of the recipient as Final Withholding Payment (FWP).
Sale price paid to seller on a gem sold through an auction Conducted by National Gem and Jewelry Authority.	2.5%	R and NR	Once WHT is deducted remaining amount is exempt from income tax in the hands of seller of gems.
Amount paid to NR person for land, sea, air transport or Telecommunication services.	2%	NR	FWP

### Procedures to be followed

- 1) WHT liability is computed on gross amounts excluding VAT payable to CGIR.
- 2) If the total invoice value is required to be remitted as a net amount to a NR person, the net amount should be grossed up by adding relevant amount of WHT.
- 3) The invoice amount in foreign currency should be converted to Rupees for calculation of WHT, using selling exchange rate published by Central Bank web site at the date of remittance.
- 4) Payments for joint investments should be apportioned according to the proportion of interest in investment by joint owners. If such proportion of interest cannot be ascertained apportionment is done equally.

### Amounts Exempt from Withholding Tax

Nature of exempt amount	Recipient	Payer
Interest income on loan granted	Person outside Sri Lanka	Person in Sri Lanka or Government of Sri Lanka (GoSL)
Pass through dividends	Member of the company	Resident company
WHT deducted Pass through dividends	Member of the company	Resident company
Dividend income	Nonresident person	Resident company
Dividends paid by BOI companies engaged in Following businesses as per PART 1V of the Finance Act No 12 of 2012 <ul style="list-style-type: none"> <li>• Entrepot trade (import, minor processing and export)</li> <li>• Offshore business</li> <li>• Providing front end services to clients abroad</li> <li>• Headquarters operations of leading buyers</li> <li>• Logistics services- bonded warehouse or multi-country consolidation in Sri Lanka</li> </ul>	Member of the company	Resident BOI company
Amounts specified under diplomatic immunities Law or similar law.  Amounts specified under diplomatic immunities law or an agreement between GoSL and international organization. (provided exemption under agreement is broader than exemption under diplomatic immunities law. )	Government of a foreign country or it's agents. (i.e. Diplomatic Staff) International Organization or it's employees.	Not specified. Presumed GoSL or any resident person Not specified. Presumed GoSL or any resident person.
Amount derived for laboratory services or standard Specification services	Non-resident Person	Not specified. Presumed GoSL or any resident person.
Lottery winnings less than Rs.500,000/-	Not specified. Presumed NR and residents	Not specified

## 2) ADVANCE INCOME TAX (AIT)

AIT can be deducted from interest, dividend, charge, natural resource payment, rent, royalty, premium, or similar payments made to resident persons **only with the consent of recipients**.

### AIT deduction rates.

AIT to be deducted on the **amount specified** by the declarant at following rates.

#### If the recipient is a resident individual

Amount of payment (Rs.)		Tax Rate
For Annual Declarations (Y/A)	For Monthly Deductions	
Maximum up to LKR 3 million	Maximum up to LKR 250000	6%
Up to next LKR 3 million	Up to next LKR 250000	12%
Balance	Balance	18%

#### If recipient is a person other than a resident individual

Type of person	Tax rate on amount specified by the person
Partnership	6%
On dividends to a resident company	14%
Charitable Institutions	14%
ETF, Provident Fund, Pension Fund or Terminal Fund	14%
Other resident entities including resident companies	24%

### Guidelines common to both WHT and AIT

- 1) Time of tax deduction - At the time relevant amount is paid, credited, re-invested, accumulated, capitalized or made available to the person.
- 2) Payment of tax deducted to DIR - On or before 15th of the following calendar month.

WHT on interest / AIT Tax type code 43

WHT on other payments Tax type code 44

- 3) Certificate of WHT/AIT deduction - Certificate shall cover one calendar month and to be served within 30 days after the end of the month.
- 4) False or misleading statement - Penalty under section 181- the greater of LKR50,000.00 or the amount by which tax is reduced due to false or misleading statement.

#### Record maintenance and obligations of payers / WHAs

- 1) Obtain a registration number (if not yet registered with DIR) not later than 30 days prior to commencement of deduction of WHT/AIT.
- 2) No separate registration is required for deduction of AIT for a WHA already registered.
- 3) Payers / WHAs shall keep proper records (including declarations received by them – Refer annex 1 (a) and 1 (b) for declaration formats) as per annex 3 and should be furnished to tax official when requested. (Refer IRD Circular No. SEC/2020/04 dated 19th May 2020 for details)
- 4) Schedules to annual statements should be submitted in Excel CSV format via electronic form. Hard copies are accepted only if the number of WHT/AIT deducted persons are less than twenty.

## D) INCOME TAX RATES - KEY CHANGES

The following income tax rates have been changed with effect from 1st January 2020.

#### i) Income Tax Rates for Companies

	Existing Rate	New Rate
a) On taxable income of a company	28%	- 24%
b) On gains and profits from following specific businesses		
i) Small and Medium Enterprises (as defined in Section 195)	14%	- 14%
ii) Conducting a business of sale of goods or merchandise where the payment for such sale is received in foreign currency and remitted through a Bank to Sri Lanka	28%	- 14%
iii) Specified undertaking (as defined in Section 195)	14%	- 14%
	Existing Rate	New Rate
b) On gains and profits from following specific businesses (Contd)		
iv) Educational Services	14%	- 14%
v) Promotion of Tourism	14%	- 14%
vi) Construction Services	28%	- 14%
vii) Agro Processing	28%	- 14%
viii) Healthcare Services	28%	- 14%
ix) Dividends received from a Resident Company	Not liable since WHT @ 14% is deducted	- 14%
x) Taxable Income (other than gains from the realization of investment assets) of a trust	24%	18%
xi) Gains and profits derived by any export company which registered with the BOI Sri Lanka from consideration received in respect of health protective equipment and similar products supplied to the Ministry of Health and indigenous medical services, Department of Health service, Tri Forces, Sri Lanka Police and COVID Centre		14%
xii) Taxable Income of a Unit Trust or mutual fund to which Section 59 of IR Act applies	28%	24%
xiii) Taxable Income of a Non Governmental Organisation	28%	24%

	Existing Rate	New Rate
c) On gains and profits from Manufacturing	28%	18%
d) On gains and profits from conducting betting and gaming	40%	40%
e) On gains and profits from manufacture and sale or import and sale of any liquor or tobacco products	40%	40%
f) The following Income tax rates are applicable with effect from 1st January 2020 under the Inland Revenue Act No.10 of 2006		
50% deduction under Section 59I of existing company	14%	9%
50% deduction under Section 59M of existing company (Manufactures)	14%	9%
50% deduction under Section 59M of existing company (service providers)	14%	12%

Further the requirement to earn 80% or more from the specified business activity to be eligible for lower rate of income tax (14%) is also removed effective from 1st January 2020.

#### ii) Income Tax Rates for Individuals (Residents, Non-residents)

- a) On taxable income (in the case of non-resident individuals, on the income other than final withholding payments)

Taxable Income	Tax Payable
1st - Rs. 3,000,000	6%
2nd - Rs. 3,000,000	12%
On the balance	18%

- b) On terminal benefits from employment  
i) Concessionary Rates

Total Terminal Benefits from Employment (Commuted Pension, Retiring Gratuity, ETF or Approved Compensation)	Tax Payable
1st - Rs. 10,000,000	0%
2nd - Rs. 10,000,000	6%
On the balance	12%

ii) Standard Rates given in above ii(a) are applicable for following type of terminal benefits.

- Compensation for loss of office which has not been approved by the Commissioner General of Inland Revenue (CGIR)
- Payment from Provident Fund (which is not a regulated fund or not an approved fund by the CGIR)
- Other payments or any retirement non-cash benefit.

- c) Business consisting of betting and gaming, manufacture and sale or import and sale of any liquor or tobacco product – 40%.

### iii) Income Tax Rates for Partnerships

WHT of 8% on any partner's share of partnership income is replaced with a tax on partnership with effect from 01.01.2020.

Applicable tax rates are given below:-

Taxable Income		Tax Rate
If taxable income consist of gains on realization of investment assets.	Gains on realization of investment assets. (Capital Gains)	10%
Balance Taxable Income	Not exceeding Rs. 1,000,000	0%
	Exceeding Rs. 1,000,000	6% on the excess of Rs. 1,000,000

## E) EXEMPTIONS - EFFECTIVE FROM 01.01.2020

Nature of Exemption	Exemption available for
Interest Income from foreign currency account opened in any Commercial Bank or any specialized Bank in Sri Lanka with the approval of Central Bank of Sri Lanka.	Any person
Pass through Dividends (Dividend paid out of dividends received)	Member of the Company
WHT deducted pass through Dividends	Member of the Company
Dividend paid by resident company to a nonresident person.	Nonresident Person
Dividends paid by BOI Companies engaged in following businesses as per PART IV of the Finance Act No. 12 of 2012. <ul style="list-style-type: none"> <li>• Entrepot Trade (Import, Minor processing and Export)</li> <li>• Offshore Business (Goods procured or manufactured in one country and shipped to another country without bringing into Sri Lanka)</li> <li>• Providing front end services to clients abroad.</li> <li>• Headquarters operations of leading buyers for management of financial supply chain and billing operations.</li> <li>• Logistics services – bonded warehouse or multi-country consolidation in Sri Lanka.</li> </ul>	Member of the Company
Dividends and gains on realization of shares in a nonresident company with respect to a substantial participation. Substantial participation means <ul style="list-style-type: none"> <li>• Holding 10% or more of the value of shares in non-resident company.</li> <li>• With the direct or indirect control of 10% or more of the voting power in the company.</li> </ul>	Any Person
Amount derived for laboratory services or standard specification services	Non-resident Person

Nature of Exemption	Exemption available for
Amount derived by way of grants or donations by any religious institution registered with Ministry in charge of Religions Affairs.	Religious Institution
Gains and profits from providing information technology and enabled services as may be prescribed.	Any Person
Gains and profits from any service rendered in or outside Sri Lanka to any person to be utilized outside Sri Lanka where the payment is received in foreign currency and remitted through a Bank to Sri Lanka.	Any Person
Gains and profits from any foreign source (other than above item) where such gains and profits earned in foreign currency and remitted through a Bank to Sri Lanka.	Any Person

#### Exemptions - Effective from 01.04.2018

Nature of Exemption	Exemption available for
Any sum received by any Public Corporation out of the funds voted by parliament from consolidated fund or out of any loan arranged through the government.	Any Public Corporation
Interest Income on loan granted.	Person outside Sri Lanka
Any income earned by any non-resident person (other than a Sri Lankan Permanent Establishment (PE) by way of interest, discount or realization of any gain on any sovereign bond denominated in local or foreign currency.	Any Non-resident Person
Interest or discount paid or allowed on any sovereign bond denominated in foreign currency including Sri Lanka Development Bonds.	Any Person

#### Exemptions - Effective from 01.04.2019

Nature of Exemption	Exemption available for
Gains and profits from sale of produce of an undertaking for agro farming of such person without subjecting such produce to any process of production or manufacture.	Any Person

## F) NEW RELIEFS & QUALIFYING PAYMENTS

Description of Qualifying Payment / Relief	Effective Date
Any sum paid to the Consolidated Fund by a Public Corporation - QP	01.04.2019
Rs. 3,000,000/- <b>Personal relief</b> for residents or non-residents but citizens for a year of assessment.	01.01.2020
<b>Expenditure relief</b> up to Rs. 1,200,000/- for resident individual for a year of assessment for following expenses incurred. <ul style="list-style-type: none"> <li>• Health expenditure including contributions to medical insurance</li> <li>• Education expenditure incurred locally, for such individual or on behalf of his children.</li> <li>• Interest paid on housing loans</li> <li>• Contributions made to an approved pension scheme.</li> <li>• Expenditure incurred for the purchase of equity or security.</li> </ul>	01.01.2020

## G) VALUE ADDED TAX (VAT) - ACT NO. 14 OF 2002

Recent VAT Amendments after 01.04.2019.

1. Thresh hold - w.e.f 01.01.2020 Rs. 75 Mn per quarter or Rs. 300 Mn per annum
2. VAT Rate changes

VAT Rate Category	Item Description	Applicable VAT Rate
a) Zero rate	Exporters / Deemed Exporters (Continuing) Tourism Sector - If conditions fulfilled *	0%
b) Standard rate	From 01.11.2016 to 30.11.2019	0%
	From 01.12.2019	15%
c) Special Rates	Tourism Sector from 21.05.2019-31.05.2019	5%
	from 01.06.2019 - 30.11.2019	7%
	From 01.12.2019	8%
	Supply or import of Wood Sawn or Chipped lengthwise, Sliced or peeled, whether or not planed, sanded or en-jointed of a thickness exceeding 6mm (HS Code 4407)	5%
	01.11.2018 to 30.11.2019 Supplying or import of sheets for veneering (including those obtained by slicing laminated wood), for plywood or for similar laminated wood and other wood, sawn lengthwise, sliced or peeled, whether or not planed, sanded, spliced or en-jointed, of a thickness exceeding 6mm (HS Code 4408)	5%
	01.11.2018 to 30.11.2019 Sale of residential accommodation by way of condominium housing units from 01.01.2019 to 30.10.2019	15%
	From 01.11.2019 to 30.11.2019 (Input VAT restricted to 5%)	6%
	From 01.12.2019	Not Liable
	VAT on Financial Services (Continuing)	15%

### Conditions to be fulfilled

- On the supply of services by a hotel, guest house, restaurant or other similar businesses providing similar services, registered with the Sri Lanka Tourism Development Authority, if sixty per centum (60%) of the **total value of the inputs which are sourced from local supplies / sources**, VAT is applicable at the rate of zero per centum (0%).
- i) **“Total value of inputs”** means the total value of the goods purchased during the taxable period which ended prior to the commencement of the taxable period immediately preceding to the taxable period for which the zero percent (0%) Value Added Tax rate applies.
- ii) **“Inputs which are sourced from local supplies / sources”** means the total expenditure incurred for the purchase of locally produced agricultural, horticultural, fishing, animal husbandry or dairy products and any goods manufactured locally with minimum 10% local value addition, for the taxable period which ended prior to the commencement of the taxable period for which the zero percent (0%) Value Added Tax rate applies”.

### VAT Exemptions

- Information Technology and enabled services as may be prescribed effective from 01.01.2020. (item No.Liij).
- Exemption of the supply of services in respect of inbound tours, by a travel agent registered with the Sri Lanka Tourism Development Authority with effect from April 1, 2020.
- Exemption of quantities supplied / donated of health protective equipment and similar products by export oriented BOI companies to the Ministry of Health and Indigenous Medical Services, Department of Health Services, Tri Forces and Sri Lanka Police on their request.
- Exemption of Importation or importation and supply or importation and donation of machinery and equipment including medical, surgical and dental instruments, apparatus, accessories and parts thereof, hospital / medical furniture and drugs, chemical and similar items required for the provision of health services to address the COVID – 19 pandemic from May 20, 2020 to December 31,2020.

### Other VAT Amendments

- Reduction of piece based VAT Rate applicable on domestic sale of certain garments by the export oriented Board of Investment (BOI) companies from Rs.100/- to Rs.25/- in line with the removal of Nation Building Tax and reduction of VAT rate.
- Removal of the provisions permitting to treat the supplies made by the suppliers who are not registered for VAT as VAT inclusive supplies, introduced in respect of the wholesale and retail trade, in line with the increase of threshold for registration for VAT and introduction of voluntary registration.

## H) TAXES ABOLISHED

Name of Tax	Effective date of removal
Economic Service Charge (ESC)	January 01st 2020
Nation Building Tax (NBT)	December 01st 2019

Withholding Tax (WHT) on the following payments made to resident persons removed with effect from 1st January 2020.

- **PAYE Tax on employment income of resident employees**  
However, retaining a part of the terminal benefits in lieu of income tax by the employer/ETF/Provident Fund is required. (A separate guideline has been published for this purpose by Circular No. SEC/2020/02 dated 18.02.2020)
- WHT on dividend, interest, discount, charge, natural resource payment, rent, royalty, premium or retirements payments made to a resident person is removed.
- 8% WHT on Resident partner’s share of profit allocated by the partnership is removed.
- WHT @ 5% on service fee paid [referred to in section 85(1)(a)] to a resident individual is removed.

## TAX INFORMATION AT A GLANCE

### YEAR OF ASSESSMENT 2020/2021

#### PERSONAL TAX

**Tax Free Allowance (for Residents and Non Residents who are Citizens of Sri Lanka) - Rs.3,000,000/-**

#### Income Tax Rates – Residents and Non Residents

Taxable Income Rs.	Tax Rate	Tax Rs.	Cumulative Rs.
1st – 3,000,000	6%	180,000	180,000
2nd – 3,000,000-6,000,000	12%	360,000	540,000
6,000,000 above	18%		

Interest Income and dividend income received by a resident individual is liable to tax at normal rates.

Relief for rent income from an investment asset - 25% of the total rental income.

Partnerships taxable income excluding capital gains is liable to partnership tax @ 6%. Individual partners can claim partnership tax against their income tax liability.

#### QUALIFYING PAYMENTS

a)	Donation in money to an Approved Charity	Maximum of Rs. 75,000 or 1/3 of Taxable Income whichever is less
b)	Donations to Government	In money or otherwise full amount can be claimed

#### Expenditure relief upto 1,200,000 on the following:-

- Health expenditure including medical insurance
- Educational expenditure incurred locally
- Interest paid on housing loans
- Contributions to an approved pension scheme
- Purchase of equity or security

Employment Income	Advance Personal Income Tax (APIT) is deducted monthly with the consent of resident employees (Govt. & Private Sector). Resident Individual with income from employment up to Rs.3,000,000/- is not liable for APIT.
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#### Taxation of secondary employment income of Resident employees

Monthly Remuneration from primary employment	Amount on which monthly tax is deductible on the total remuneration from secondary employment	Tax Rate on 2nd employment income
Upto – 250,000	“	6%
250,001 – 500,000	“	12%
500,001 and above	“	12%

Non Resident employee on the total remuneration from secondary employment – 18%

Expatriate Employees Taxed according to the Table No. 04.

#### LOSSES

With effect from 01.04.2018 losses can be fully set off against the income without any limitation. However lower rate losses can be deducted only against exempt profit or profit liable at lower rates.

#### EMPLOYMENT BENEFITS

Fair market value shall be taken for the Non-cash benefits. If it can't be ascertained deemed values has to be taken as follows.

Non Cash Benefit	Value for Tax Purposes
House (rated area)	Rs.240,000 per annum Rs.480,000 per annum *
Telephone Motor Vehicle Benefit	50% of cost. According to the circular issued by the IRD.
Other Benefits Servants / Electricity / Gas / Air Ticket (other than official purposes / Hotel facilities for expatriates)	Fair market value  100% of the cost

\* where employee's salary exceeds Rs.200,000 per month

### (Uniform Scheme Terminal Benefits (Gratuity, ETF))

	Rs.	Rate
First	10,000,000	Exempt
Next	10,000,000	6 %
Balance		12%

Compensation on Voluntary Retirement

Amount received at the time of retirement from:

ETF – Company Contribution – Liable

ETF - Interest - Exempt

EPF – Exempt

Income Tax Rates for Companies		Income Tax Rate
i)	On taxable income of a Company (Other than ii and iii below)	24%
ii)	a) Small and Medium Enterprises (SME) (defined)	14%
	b) A Company conducting an <b>Agro Processing</b> (defined).	14%
	c) A Company engaged in an undertaking for the promotion of tourism (defined).	14%
	d) A Company engaged in manufacturing	18%
	e) A Company conducting a business of <b>exporting goods and services including specified undertakings.</b>	14%
ii)	f) A Company providing <b>educational services.</b>	14%
	g) A Company with income from a business consisting of betting and gaming, liquor and / or tobacco (excluding such income which is merely incidental to another business)	40%
iii)	Gains from realization of investment assets (Capital Gains)	10%
iv)	Dividend received from a resident company	14%
v)	Agro farming is exempt	

### Taxation of Other Entities

Nature of Entity	Tax rate on Gains from realisation of investment assets	Tax rate on remainder of taxable income
Partnerships*	10%	6%
Trusts	10%	18%
Unit Trusts / Mutual Funds	10%	24%
Charitable Institutions	10%	14%
Non-government Organisations (NGOs)	10%	24%
Employees Trust Fund, Approved Provident or Pension Funds and Approved Termination Funds	-	14%

### WITHHOLDING TAX (WHT)

WHT on Rent (paid to Non-Resident)	14%
WHT on Other Investment returns (Royalty, Charge etc.)	14%
WHT on any Service Fees or Insurance Premium to NR Person	14% (Subject to DTA)
WHT for NR / Conducting Land, Sea or Air Transportation or Telecommunication	2%
WHT on Sale Price of any Gems sold at an auction conducted by National Gem & Jewellery Authority.	2.5%

### CAPITAL ALLOWANCE

Class	Depreciable Assets	No. of Years for depreciation
1	Computers and data handling equipment together with peripheral devices.	5
2	Buses and minibuses, goods vehicles; construction and earth moving equipment, heavy general purpose or specialized trucks, trailers and trailer – mounted containers; plant and machinery used in manufacturing	5
3	Railroad cars, locomotives, and equipment; vessels, barges, tugs and similar water transportation equipment, aircraft, specialized public utility plant, equipment, and machinery, office furniture, fixtures, and equipment; any depreciable asset not included in another class.	5
4	Buildings, structures and similar works of a permanent nature.	20
54	Intangible Assets, excluding goodwill – Limited useful life	Actual useful life of IA. 20

These facts are for general guidance only and professional advice should be sought prior to acting on same.

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