



# *Budget Highlights* *2021*

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**19<sup>TH</sup> NOVEMBER 2020**



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## Focus of Tax Proposals

- Incentives for export and priority sectors
- Discouraging imports
- Simplification of tax
- Continuance of tax policy introduced in January 2020



## Continuation of Income Tax proposals



- Revision of corporate tax rates:
  - Concessionary rate of 14% extended to healthcare, construction and agro processing
  - Removal of “predominant” rule
  - Concessionary rate of 18% for manufacturing
  - Standard rate of 24%
- Revision of individual income tax rates (6%, 12% & 18%) and tax slabs (Rs.3Mn)
- Personal relief revised to Rs. 3Mn and additional expenditure relief of Rs. 1.2Mn
- Removal of WHT for residents and PAYE Tax, and introduction of AIT/APIIT



## Continuation of Income Tax proposals



- Exemptions:
  - Business of agriculture w.e.f 1 April 2019
  - Business of IT and enabling services
  - Foreign sourced income and service income, received in foreign currency
  - Interest on loans paid to non-residents w.e.f 1 April 2018
  - Dividends paid to non-residents, and dividends paid by Hub enterprises



## Continuation of Other Tax proposals



- VAT:
  - Increase of registration threshold for VAT to Rs. 75Mn per quarter or Rs. 300Mn p.a. and enabling voluntary registration
  - Revision of VAT rate from 15% to 8%
  - Exemptions on sale of condominium housing units w.e.f 1 December 2019, IT and enabling services w.e.f 1 January 2020, inbound tour operators w.e.f 1 April 2020
- Abolishment of NBT
- Abolishment of ESC



## Exemptions to Industries

| Sector  | Qualifying Criteria   | Tax Exemption  |
|---|---|--|
| <ul style="list-style-type: none"><li>▪ Export</li><li>▪ Dairy</li><li>▪ Fabric</li><li>▪ Tourism</li><li>▪ Manufacture of Agricultural products</li><li>▪ Information Technology</li></ul> | <ul style="list-style-type: none"><li>▪ Investment exceeding USD 10mn</li><li>▪ Impacts the economy significantly</li></ul> | <ul style="list-style-type: none"><li>▪ Concessions upto a maximum of 10 years under SDP</li></ul>       |
| <ul style="list-style-type: none"><li>▪ Logistic</li></ul>  | <ul style="list-style-type: none"><li>▪ Bonded warehouses</li><li>▪ Warehouses related to offshore business</li></ul>       | <ul style="list-style-type: none"><li>▪ Exemption from all taxes</li></ul>                               |
| <ul style="list-style-type: none"><li>▪ Infrastructure</li></ul>  | <ul style="list-style-type: none"><li>▪ Investment in Towers for Telecommunication</li></ul>                                | <ul style="list-style-type: none"><li>▪ 5 years concession from 1 Jan 2021</li></ul>                     |
| <ul style="list-style-type: none"><li>▪ Pharmaceutical</li></ul>  | <ul style="list-style-type: none"><li>▪ Operation within a designated zone</li></ul>  | <ul style="list-style-type: none"><li>▪ Not prescribed</li><li>▪ Incentives under the SDP Act.</li></ul> |



## Exemptions to Industries



| Sector             | Qualifying Criteria  | Tax Exemption                      |
|--------------------|--|------------------------------------|
| ▪ Dairy            | <ul style="list-style-type: none"><li>▪ Investment over USD 25 mn</li><li>▪ Import substitution</li></ul>  | ▪ SDP concession for 5 years       |
| ▪ Renewable Energy | <ul style="list-style-type: none"><li>▪ All renewable energy projects</li></ul>  | ▪ 7 years                          |
| ▪ Shipping         | <ul style="list-style-type: none"><li>▪ Local boat and ship building</li></ul>   | ▪ 7 years                          |
| ▪ Construction     | <ul style="list-style-type: none"><li>▪ Recycling of construction material at designated sites</li></ul>   | ▪ 10 year tax holiday              |
| ▪ Education        | <ul style="list-style-type: none"><li>▪ Private sector institutions standardized under TVET concept</li><li>▪ Double the intake at least upto 50,000</li></ul> | ▪ Income tax exemption for 5 years |
| ▪ Start-ups        | <ul style="list-style-type: none"><li>▪ Completion of vocational education</li><li>▪ Minimum loan capital of Rs.500,000</li></ul>                              | ▪ Income tax exemption for 5 years |





# Concessions to Capital Market



## Sri Lanka Real Estate Investment Trust (SLREIT)

- Returns on the REIT – Exempt
- Capital gains tax on the REIT – Exempt
- Stamp Duty – Reduced up to 0.75%

## Listing of Companies

- List before 31 December 2021
- 50% tax concession for Y/A 2021/22
- Corporate tax rate 14% for next three years



## Other Sector Specific Proposals



### Financial Services

- Anticipated loss provision may be permitted as a deduction
- Investment expenditure of Banks/ Holding companies in Finance Companies to be tax deductible
- Cost of funds on loans to start-up entitled to double deduction
- Interest and gains on Sri Lanka international sovereign bonds to be exempted for Commercial Banks

### Dairy

- Accelerated depreciation rate of 50% on specified advance technology equipment for Dairy production

### Foreign entities

- Concessions to foreign companies on reinvestments and multinational companies on venturing into exports – Concession is unclear



## Indirect Tax proposals - VAT



- Removal of deemed input credit available to wholesalers and retailers
- VAT exemptions available to goods at the point of importation to be extended to the domestic production of same
- Exemption on supply/ donation 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 at their request
- Exemption on import/ supply/ donation of machinery and equipment required for the provision of health services to address the COVID 19 Pandemic for the period from 20 May 2020 to 31 December 2020



## Indirect Tax proposals – Import taxes



- Import taxes will be removed on raw materials that are not locally available for exports and domestic industries producing value added goods
- Import tax on importation of machineries and equipment with modern technology will be removed
- Import taxes levied on the import of vehicle spare parts would be reduced
- Customs Duty concession for import of cold room facilities for the preservation of fruits and vegetables in order to encourage agriculture industry
- Customs Duty relief for import of modern equipment for entrepreneurs investing in value additions to local crops such as pepper, cloves, cardamom and coffee that are suitable for the export market
- CESS, Special Commodity Levy – To be imposed to protect local industry



## Other Proposals



- A tax pardon subject to payment of 1% and investment of moneys into areas facilitated by the Budget.
- Consolidation of taxes and levies paid by Alcohol, Tobacco, Betting & Gaming, Vehicle and Telecommunication industries.
- Capital gains tax – calculated based on sales value of a property or the assessed value of the property, which ever is higher – Method of calculation is unclear
- Incentives would be afforded to the Port City Economic Zone.



# Administration Proposals



- Continuance of relief measures to SMEs announced previously:
  - Waiver of income tax in arrears for assessments issued up to Y/A 2018/2019, if CGIR is satisfied that no fraud or willful neglect involved
  - Income tax return filed for Y/A 2019/2020 to be accepted and no additional assessments would not be issued, where tax has been paid as per return
  - Granting of a grace period for settlement of taxes in arrears/ default that have been agreed with the DIR
  - Granting of an extension up to 31 December 2020 for payment of any tax and filing of any tax return which were due during the period 1 March 2020 to 30 June 2020



# Administration Proposals



- From 2021 all companies to file online tax returns
- Special Tax Appeals Court to resolve tax appeals.
- Legal provision relating to time frame for rulings and settlement of appeals
- Penal provisions for tax consultants and auditors representing taxpayers and preparing/ certifying documents
- The Large Tax Payers Unit to come under the purview of the CGIR
- Strengthen tax audits
- Create a self-compliance tax culture
- Concessionary payment plan for settlement of outstanding NBT and ESC.



Thank you...