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Tax Alert

# Summary of Provisions in recent Finance Bill

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A Finance Bill dated August 10, 2018 has been published by the Government, as proposed in the Budget 2018, to provide for the amendment of certain levies, taxes or fees imposed under respective Finance Acts, and for the imposition of certain new levies, taxes or fees.

A synopsis of certain such provisions are given in this document.

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### Finance Sector

#### 1. Debt Repayment Levy (DRL)

In the Budget of 2018 it was proposed to impose a Debt Repayment Levy (DRL) at the rate of 0.02% on all transactions entered in to by a banks and financial institutions. It was proposed that the revenue collected from this levy will be utilized for the repayment of the government debts.

Nevertheless, the Bill proposes to introduce this levy in the following manner;

- q Liable Persons: a licensed commercial bank or a licensed specialized bank within the meaning of the Banking Act, No. 30 of 1988 and a finance company registered under the Finance Companies Act, No. 78 of 1988.
- q Collection Authority: Commissioner General of Inland Revenue.
- q Value Base: Value addition computed for VAT on Financial Services in accordance with Value Added Tax Act, No. 14 of 2002.
- q Rate: 7% on value base
- q Effective Date: From the date of commencement of the Finance Act (i.e. from the date the Speaker of the Parliament certifies the Bill).
- q Due Date: Monthly payment on or before the 15<sup>th</sup> day of the month succeeding the relevant month together with Return to be specified by the Commissioner- General of Inland Revenue.
- q Exemptions: The Minister is empowered to exempt any transaction by order published in the Gazette Notification.
- q Penalty, assessment, recovery, appeal procedure: In accordance with the Inland Revenue Act, No. 24 of 2017

*Our comments;*

- q *There is no bi-annual or annual adjustment mechanism as in the case of VAT on Financial Services.*
- q *A liable person will be require to pay 24% (the aggregate of VAT FS 15% + NBT FS 2% + this Levy 7%) on its book profits and remuneration including EPF, ETF, Gratuity and SLFRS adjustment on concessionary rate loans given to employees.*
- q *Whether this levy is deductible in arriving at value addition liable to VAT on Financial Services and income liable for income tax purpose.*

### Telecom Sector

#### 2. Cellular Tower Levy (CTL)

An annual levy LKR. 200,000/- per tower will be levied from every mobile telephone operator who owns a cellular tower, with effect from January 1, 2019.

It was proposed in the last budget to introduce the above levy at LKR. 200,000/- per month.

The levy is payable in 4 installments to the Telecommunications Regulatory Commission (TRC) within 15 days from the end of each quarter.

#### 3. SMS Advertising Levy (SMS-AL)

A levy of 25 cents for each SMS sent as bulk advertisements through the mobile SMS will be imposed with effect from the effective date of the Finance Act.

The Levy imposed shall be paid by the Advertiser and hence, the service provider company is in a position to recover the levy from the Advertiser. This will result in expansion of tax base of service provider.

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### Hotel Sector

#### 4. Tourism Development Levy (TDL)

The licensed institutions (under Tourist Development Act) with turnover less than LKR. 3Mn per quarter or LKR. 12Mn per year has been excluded from the 1% TDL liability.

As per the present amendment, the licensed Institutions with turnover less than LKR. 3Mn per quarter or LKR. 12Mn per year will be liable to DTL at 0.5 %, with effect from September 01, 2018.

### Company Registration

#### 5. Annual Company Registration levy (ACRL)

An annual Company Registration levy is imposed on all companies incorporated or registered under the Companies Act No 07 of 2007 as follows:

Category of Company	Rate (Per annum)
Private Company	LKR. 30,000/-
Listed Public Company	LKR. 1,500,000/-
Any other Company	LKR. 250,000/-

The levy is payable at the time of filing Annual Returns with Department of Registrar of Companies (ROC).

The companies incorporated or registered prior to 01 January 2018 will be liable to the levy for year 2018 onwards. However, the companies incorporated within the calendar year 2018, the levy is payable from 2019 onwards.

The offshore companies and companies limited by Guarantees are excluded from the above levy.

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#### Contact details

If you would like to know more about these developments and how they may affect your business, please contact one of the EY tax professionals based in the locations listed below.

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