

November 9, 2018

Tax Alert

Summary of Provisions in the Finance Act No. 35 of 2018

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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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The Finance Act No. 35 of 2018 has been enacted consequent to the respective proposals made in the Budget 2018, to provide for the amending of certain levies, taxes or fees imposed under respective Finance Acts, and for the imposition of certain new levies, taxes or fees.

Further to our Tax Alert dated 17 August 2018, an outline of the final position of such provisions, incorporating amendments moved at the time of enacting the Bill, are given in this document.

Finance Sector

1. Debt Repayment Levy (DRL)

The Act provides for the imposition of Debt Repayment Levy (DRL) based on the Value Addition computed for VAT on Financial Services (VAT on FS) by Banks or Financial Institutions.

The Act imposes this levy in the following manner;

- ❑ **Liabe 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 licensed under the Finance Business Act, No. 42 of 2011.
- ❑ **Collection Authority:** The Commissioner General of Inland Revenue.
- ❑ **Value Base:** Value addition computed for the purpose of VAT on FS in accordance with the Value Added Tax Act, No. 14 of 2002, before deducting VAT on FS, NBT on FS and DRL. Hence, the value base on which DRL is imposed is higher than the value base for imposing VAT on FS and NBT on FS.
- ❑ **Rate:** 7% on value base
- ❑ **Applicability:** For the period from October 1, 2018 to December 31, 2021.
- ❑ **Payment Due Date:** Payment should be made on or before the 20th day of the month succeeding the relevant month, with the value addition statement.
- ❑ **Return Due Date:** A Return (as specified by the Commissioner- General of Inland Revenue) should be furnished within a period of 6 months from the end of the financial year.
- ❑ **Exemptions:** The Minister is empowered to exempt any transaction by order published in the Gazette Notification.
- ❑ **Penalty, assessment, recovery, appeal procedure:** Based on the relevant provision of the Inland Revenue Act, No. 24 of 2017

Telecom Sector

2. Cellular Tower Levy (CTL)

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

Where a cellular tower is used by multiple operators, the levy shall be paid in equal shares.

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

- ❑ **“Mobile Telephone Operator”** means: an operator licensed under section 17 of the Sri Lanka Telecommunications Act, No. 25 of 1991.
- ❑ **“Cellular Tower”** means: a cellular telephone site where antennae and electronic communication equipment are placed.



3. SMS Advertising Levy (SMS-AL)

A levy of 25 cents for each SMS sent as bulk advertisements will be imposed with effect from January 1, 2019.

The Levy imposed shall be paid by the Advertiser and hence, the service provider is in a position to recover the levy from the Advertiser.

Hotel Sector

4. Tourism Development Levy (TDL)

A Tourism Development Levy (TDL) of 0.5% shall be charged on every licensed Institution with turnover less than LKR. 3Mn per quarter effective from January 01, 2019.

The Institutions licensed under the Tourist Development Act and Tourism Act with turnover less than LKR. 3Mn per quarter or LKR. 12Mn per year were excluded from TDL liability.

With effect from 01 January 2019, licensed Institutions with turnover less than LKR 3mn per quarter or LKR 12mn per year shall be charged at 0.5 % of the turnover.

On all licensed institutions with turnover greater than LKR 3Mn per quarter or LKR 12Mn per annum, the levy will continue to be at 1% of the turnover.

However, the levy shall not be charged on the commission received from the sale of air tickets by travel agents.

Company Registration

5. Annual Company Registration levy (ACRL)

A levy termed as "Annual Company Registration levy" has been imposed for the year commencing on January 1, 2016 and ending on December 31, 2016, on all companies incorporated or registered prior to January 1, 2016 under the Companies Act No 07 of 2007. Hence, this is a one-off payment for 2016.

The Levy shall be paid as specified for each category 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 shall be collected by the Registrar of Companies from every relevant company, on or before December 31, 2019 and remitted to the Consolidated Fund.

However, any company which has been incorporated during the period commencing on January 1, 2016 and ending on December 31, 2016 shall not be liable to pay the above levy.

Further, offshore companies and companies limited by guarantee are excluded from the above levy.

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