

Measures to Improve Tax Administration and Tax Policy Revisions

9. Inland Revenue Department

9.1 Income Tax (Amendments to the Inland Revenue Act, No. 24 of 2017)

9.1.1 Tax Payable by Withholding

- (a) A special tax return requirement will be introduced for the deduction of 2.5% withholding tax levied on the sale price of any gem sold at an auction conducted by the National Gems and Jewellery Authority. Exemption under Inland Revenue Act will be allowed subject to such return information.
- (b) The withholding tax certificate issued by the withholding agent pursuant to section 87 shall be issued without charge or payment from the withholder.

9.1.2 Income tax on Unit Trusts and Unit Holders

The current tax treatment of Unit Trusts shall continue to apply subject to the mandatory requirements of furnishing information specified by the Commissioner General such as details of income, exempt amounts and withholding tax details to every unit holder before 30th August following the year of assessment. Any Unit Trust who has not complied prior to that date will be deemed as a Unit Trust that does not conduct an eligible business.

9.1.3 Prosecution actions against failures to file tax returns

A special penal provision will be introduced to prosecute persons who have not submitted tax returns and information required by the tax officials.

9.1.4 Clarity of certain provisions will be improved

Section 18, 67, 163 will be amended to improve the clarity of the application of such sections.

9.1.5 Submission of Documentary Evidence

The documentary evidence called by tax officials during tax audits or administrative reviews but not submitted within a reasonable period of time (6 months from the original date of call for evidence available in Sri Lanka and 9 months for others), will not be allowed to submit during the hearing at Tax Appeals Commission. Relevant provisions in the Tax Appeals Commission Act, No. 23 of 2011, will be amended as well.

9.1.6 Tax Identification Number

Submission of a copy of the Certificate of the Taxpayer Identification Number (TIN) will be made a mandatory requirement to:-

- (a) Open bank current account at any bank;
- (b) Obtain approval for a building plan, by the applicant
- (c) Register a motor vehicle or renew license, by the owner
- (d) Register a land or title to a land, by the buyer

The required guidelines will be issued by the Commissioner General.

9.1.7 Income Tax Treatment on Salary Arrears

Present tax treatment on salary arrears will be changed to remove the excessive tax liabilities of the employees, with effect from January 1, 2024.

9.2 Value Added Tax

9.2.1 Amendment will be introduced enabling the Commissioner General to specify the format of the tax invoice

9.2.2 the expression “taxable Period” in section 83 of the VAT Act, will be defined to have same return filing frequency for all taxpayers

9.2.3 A gazette notification will be issued to implement the increase of VAT rate with effect from January 1, 2024.

9.2.4 The registered persons will be encouraged to use Point of Sale (POS) machines which automates invoicing and sales recording, to support VAT collection in supplying goods or services.

10. Excise Department

10.1 Tax administration measures for the Excise Department of Sri Lanka

10.1.1 Introduction of an online license-issuing system to provide customer friendly and efficient regulatory environment expeditiously

10.1.2 Appoint a committee to evaluate the security features and security features management system to address the issues including fake or counterfeit stickers.

10.1.3 A new excise licensing system will be introduced to:-

- a) Streamline the guidelines/rules for various types of licenses
- b) revise the maximum limit for certain licenses with a view to address the irrational distribution of liquor outlets creating ‘Dry Areas’
- c) introduce flexible opening hours to discourage illicit selling of liquor and to maintain industry discipline
- d) revise related regulations for the tourism promotional activities
- e) introduce an appropriate policy for soft liquor licenses
- f) maintain the industry discipline at the highest possible level

- g) Establish Design and Monitoring Unit and Risk Management Unit at the Excise Department
 - h) Introduce Key performance Indicators (KPIs) related to core administration functions
- 10.1.4 The toddy tender system will be revised to gain more revenue to the government while discouraging illicit toddy industry
 - 10.1.5 Administrative fees on the services provided by the Excise Department will be introduced
 - 10.1.6 Networking and sharing intelligence and information with stakeholder institutions will be done

10.2 Policy Proposals of the Excise Department of Sri Lanka

- 10.2.1 Introduction of Sri Lanka Standards (SLS) for toddy and all types of locally manufactured liquor to maintain the quality of products targeting local as well as foreign markets
- 10.2.2 Increase the Excise License fees with a rationale that is corresponding to the present demand for those licenses
- 10.2.3 Encourage investments for new types of liquor products targeting foreign markets
- 10.2.4 Make selected locally produced liquor to be available in duty free shops
- 10.2.5 Introduce 'Revenue Administration System for Excise Department' (RASED) by end October, 2024 to increase the efficiency and productivity of excise revenue management and minimize the risk for wastages and corruption
- 10.2.6 Encourage R&D, product innovation, product diversification, quality enhancement, export orientation, and import substitution in the liquor industry
- 10.2.7 Strengthen the tax collection and enforcement in Beedi Industry

11. Department of Sri Lanka Customs

3.1 Development of risk management capabilities of Sri Lanka Customs by developing a sophisticated software solution. The project goals include enhancing risk assessment for revenue risks, improving operational efficiency in customs clearance, ensuring compliance with regulations, and creating a sustainable, adaptable software system for future needs.

3.2 Establishment of a mechanism to prevent mis-invoicing and upgrade ASYCUDA system

3.3 Introduction of Key Performance Indicators (KPIs) related to core administration functions of the Customs.

12. Technical Rectifications and clarification of administrative provisions

Necessary amendments will be made to the respective provisions of the, Inland Revenue Act, No.24 of 2017, Value Added Tax Act No.14 of 2002, Finance Acts and Finance (Amendment) Acts, Social Security Contribution Levy Act, No.25 of 2022, Telecommunication Levy Act No 21 of 2011, Tax Appeals Commission Act No 23 of 2011, in order to streamline the revenue administration and to rectify certain ambiguities and unintended effects (including differences in translations) and for the avoidance of doubts.