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BUDGET 2011 – HIGHLIGHTS (TAXATION)

BUDGET HIGHLIGHTS - 2011

TABLE OF CONTENTS	PAGE
(1) Income Tax	2
(i) Corporate Tax Rates	2-3
(ii) Determination of Business Profit	3
(ii) Exemptions from Income tax	3
(iii) Withholding Tax	3
(iv) Deemed Dividend Tax	3
(v) Income Tax - Personal	3-5
(1.1) Appendix I - Determination of Business Profit	5-6
(1.2) Appendix II - Exemptions from Income Tax	7-8
(2) Economic Service Charge	8
(a) Threshold	8
(b) Submission of Returns	8
(c) New Exemptions	9
(d) Rates	9
(3) Value Added Tax (VAT)	9
(a) VAT Rates	9
(b) Input Tax Restrictions	10
(c) Unabsorbed/unclaimable VAT	10
(d) VAT on Financial Services	10
(4) Nation Building Tax (NBT)	10
(a) Rate	10
(b) Threshold for NBT (per quarter)	10
(c) Threshold applicable to priority sectors (per quarter)	10
(d) Deduction as an income tax deductible expense	11
(e) Cancellation of previous exemptions	11
(f) New Exemptions	11
(5) Provincial Council Turnover Tax	12
(6) Debit Tax	12
(7) Other Taxes and levies	12-13

Description	Prevailing	Proposed
(1) Income Tax		
(i) Corporate Tax Rates		
- Standard rate of tax	35%	28%
- Profits and income from sale and Manufacture or import of liquor or tobacco products.	35%	40%
- Quoted Companies	33 1/3%	28%
- Public corporations and Government owned business undertakings	30%	28%
- Profits on the receipt of any fund setup or funds received by a Non Governmental Organization	30%	28%
- Banks and other financial institutions	35% Off-shore banking - 20%	28%
- Venture capital companies	20%	12%
- Petroleum exploration	15%	12%
- Entertainer or artist	15%	12%
- Taxable income not exceeding Rs. 5Mn (Not applicable to any company in a group)	15%	12%
- Profits from Export, tourism, construction	15%	12%
- Profits on sales of any product having a domestic value addition of 65% with patented Sri Lankan brand name.	35%-15%	Maximum 10%
- Clubs and association	20%	10%

Description	Prevailing	Proposed
Corporate Tax Rates - Contd...		
- Undertaking for operation and maintenance of facilities for storage	35%	10%
- Local software development or supply of labour	35%	10%
- Agriculture undertaking	35%	10%
- SME	15%	10%
- Partnership Tax	10%	8%
(ii) Determination of Business Profit	(Please refer to the appendix I)	
(ii) Exemptions from Income tax	(Please refer to the appendix II)	
(iii) Withholding Tax		
- Interest income to individuals on deposits with Banks and Financial Institutions		
Slab 1	Up to Rs. 300,000 - NIL	Up to Rs. 500,000 - NIL
Slab 2	Rs.300,000-Rs 1,000,000 - 2.5%	Rs. 500,000- Rs 1,500,000 - 2.5%
Slab 3	Rs. 1,000,000 and above 10%	Rs. 1,500,000 and above 8%
- Withholding Tax on Specified Fees	5%	Proposed to be abolished
(iv) Deemed Dividend Tax		
Reduction in requirement to distribute dividends	25%	10%
(v) Income Tax - Personal		
a. Tax Free Allowance		
	Rs 300,000	Rs. 500,000

Description	Prevailing	Proposed
Income Tax - Personal - Contd..		
b. Tax rates (minimum to maximum)	5% - 35%	4% - 24%
c. Tax slabs		
1 st	Rs.400,000 -5%	Rs. 500,000 - 4%
2 nd	Rs.400,000 -10%	Rs.500,000 - 8%
3 rd	Rs.400,000 -15%	Rs.500,000 - 12%
4 th	Rs.500,000 -20%	Rs.500,000 - 16%
5 th	Rs.500,000 -25%	Rs.1,000,000 - 20%
6 th	Rs.500,000 -30%	Balance - 24%
7 th	Balance -35%	
d. Tax free allowance for PAYE	N/A	Rs. 600,000
e. Employment Income		
- Individual employed under single employer	Taxed at standard rates.	Will be taxed under PAYE scheme and such tax will be the final tax.
	Deduction for qualifying payments, and PAYE tax credit available.	Application for direction and refund will not be available.
- Individual employed under several employers		
1. Employment income from the main employer	Tax at standard rates.	Will be taxed under PAYE scheme and such tax will be the final tax.
2. Employment income from other employments	All income aggregated and taxed under normal progressive rates.	Tax withheld at 16%. Employment income to be aggregate with other incomes and taxed at progressive rates. Individual entitled to a credit for tax withheld.

Description	Prevailing	Proposed
f. Withholding tax on Director's Fees		
Withholding tax rate	10%	16%
Threshold	Total fee is liable for tax.	Salaries in excess of Rs 25,000 per month.
g. Filing of returns - Personal tax		
	Not required, only if the profit from employment does not exceed Rs. 1,000,000 and PAYE tax has been deducted by the Employer.	Not required if the employment income is the only source of income. PAYE tax deducted to be treated as final tax.

(1.1) Appendix I - Determination of Business Profit

(a) Capital allowance

Plant & Machinery	12 1/2%	33 1/3%
New Building constructed for commercial use	6 2/3%	10%

(b) Expenses incurred in relation to listing of company's shares in the CSE and Implementing of debt instruments.	Not Deductible, considered as a capital expenditure.	Deductible, subject to limit of 1% of the value of IPO.
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(c) Research expenditure.	Research expenditure as defined in Section 25 (1) is allowable.	Allowed a double deduction for research conducted in Sri Lanka through institution established for research.
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(d) Advertising expenses	Allowed 50% of local advertising expenses	Restricted to 25%
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Description	Prevailing	Proposed
(e) Foreign travel expenses	Allowed, if it is incurred; 1. Promotion of export trade 2. Provision of any service, for payment in foreign currency 3. Promotion of tourism	Allowed, only if it is incurred in the production of income, subject to limit of 2% of the previous years statutory income from business
(f) Foreign training	Allowed, subject to; 1. Directly relevant to duties performed by such employee prior to commencement of training 2. It is essential to upgrade skills, performance of such employee, relevant to business 3. Necessary to improve efficiency in the trade or business	Deductible, subject to limit of 2% of the previous year statutory income from business
(g) Foreign traveling	Allowed, if it is incurred; 1. Promotion of export trade 2. Provision of any service, for payment in foreign currency 3. Promotion of tourism	Deductible, subject to limit of 2% of the previous year statutory income from business. Only if, incurred in production of income
(h) Management fee	Ceiling on deductibility is limited to higher of; 1. Rs. 1 Mn or 1% of the turnover, which ever is less Or 2. Amount determined by CGIR as reasonable	Ceiling on deductibility is limited to higher of; 1. Rs. 2 Mn or 1% of the turnover, which ever is less Or 2. Amount determined by CGIR as reasonable
(i) Tax born by employer	Not specified in current law, hence claimed as a part of employment costs.	To be disallowed

Description	Prevailing	Proposed
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(1.2) **Appendix II - Exemptions from Income Tax**

(a) Unit Trust

Income derived by unit trusts from investments in listed debentures and equity is exempted (Currently interest income from listed debentures taxable)

(b) Tax Holidays for New Investments

It has been proposed to grant five (05) years tax holidays for any company carries on a new undertaking subject to followings;

- (i) Investments not less than US\$ 5,000 and not more than US\$ 10. Million or Rupee equivalent prescribed by the specified ministry time to time.
- (ii) Prior approval to be obtained from CGIR

(c) Exemption on foreign currency earnings

(i) Extension of exemption on foreign currency earnings

Exemption on Profit earned in foreign currency on any services provided to a person or partnership outside Sri Lanka is further extended (Currently exempted up to March 31, 2011)

(ii) Foreign Exchange Earnings from Supplies to Headquarters of foreign buyers in Sri Lanka

Foreign exchange earnings from supply of textiles, leather products, footwear and bags to foreign buyers who establish their headquarters in Sri Lanka is exempted in this proposal

Description	Prevailing	Proposed
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(d) Industry Exemptions

- (i) Following industries are to be exempted from income tax for a period of five (05) years effective from the Year of Assessment 2010/11
 - Fishing (Currently tax at a lower rate of 15%)
 - Cultivation and primary processing (Currently exempted up to Year of Assessment 2010/11)
- (ii) Following institutions are exempted from income tax from all sources effective from April 01, 2011

Institution	No of years
Sri Lankan Air Lines Ltd	10
Mihin Lanka (Pvt) Ltd	10
Ceylon Electricity Board	5
Water Board	5
Ceylon Petroleum Corporation	5
Sri Lanka Ports Authority	5

(Currently these institutions are liable for income tax)

(2) Economic Service Charge

- (a) **Threshold**

	7.5 Million per quarter.	25 Million per quarter
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- (b) **Submission of Returns**

	Quarterly, on or before 20th day of the immediate succeeding the relevant quarter.	Annually
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Description	Prevailing	Proposed
(c) New Exemptions	N/A	<ul style="list-style-type: none"> - Distributors as defined in the ESC Act - Dealers in lottery - Unit trust or mutual fund - All air lines and shipping lines - Small and medium enterprises
(d) Rates		
(i) BOI Enterprises	0.1%	0.1%
(ii) Exempted, Concessionary rates and others		
- Exempted from Income Tax	0.25%	0.25%
- Tax at concessionary rates	0.50%	0.25%
- Wholesale or retail trade other than manufactured or produced by the seller	0.50%	0.25%
- Primary conversion of any tea , rubber or coconut plantation including desiccated coconut, coconut oil or fiber, copra and sheet rubber	0.50%	0.25%
- Advertising Agents	1%	0.50%
- Others	1%	1%
(3) Value Added Tax (VAT)		
(a) VAT Rates		
Standard rate	12%	12%
Luxury rate	20%	12%
Zero rate	0%	0%

Description	Prevailing	Proposed
Value Added Tax (VAT) - Contd...		
(b) Input Tax Restrictions	85%	100% (No restriction)
(c) Unabsorbed/unclaimable VAT		
Unabsorbed VAT credits as at December 31, 2010 to		
be deducted against income tax as follows;		
(i) Input tax related to revenue expenditure	N/A	To be setoff at an equal installment over 4 years period effective from the Year of Assessment 2010/11
(ii) Input tax related to capital expenditure	N/A	To be treated as a part of cost of the respective assets and claim capital allowances accordingly.
(d) VAT on Financial Services		
Rate	20%	12%
(4) Nation Building Tax (NBT)		
(a) Rate	3%	2%
(b) Threshold for NBT (per quarter)	Rs 650,000	Rs 500,000
(c) Threshold applicable to priority sectors (per quarter)		
(i) Operating a hotel, guest house, restaurant or other similar business.	Rs 650,000	Rs.12.5 Mn

Description	Prevailing	Proposed
Nation Building Tax (NBT) Contd..		
(ii) Local value added agricultural produce, rice based products;	Rs 650,000	Rs.12.5 Mn
(iii) Local educational institutions;	Rs 650,000	Rs.12.5 Mn
(iv) Supply of labour (manpower) or employment	Rs 650,000	Rs.12.5 Mn
(d) Deduction as an income tax deductible expense	Maximum 1/3	No restriction
(e) Cancellation of previous exemptions		
Following categories were previously exempted from NBT and now have been brought in to charge;		
- Services of star hotels above the rank of three star		
- Any person registered for optional VAT		
(f) New Exemptions		
	<p data-bbox="1404 751 1533 784"><u>Institutions</u></p> <ul data-bbox="1404 792 1848 889" style="list-style-type: none"> - Government Institutions (Departments) - Sri Lanka Airlines - Air Lanka Catering Services 	
	<p data-bbox="1404 906 1606 938"><u>Goods or Services</u></p> <ul data-bbox="1404 946 1885 1320" style="list-style-type: none"> - importation to a specific project carried on out of foreign funds or donations received by the government as approved by the minister; - Importation of raw materials and packing materials for the manufacture of ayurvedic - preparation subject to the approval of relevant authority; - Services provided to the port or airline in relation the international transportation; 	

Description	Prevailing	Proposed
<p>New Exemptions- Contd...</p>		<ul style="list-style-type: none"> - Services provided in relation to the ship building for the international market for payment made in foreign currency; - Services of sub contractors in a construction contract; - Telecommunication services; - Supply of locally developed software; - Import or supply of following articles; <ul style="list-style-type: none"> a. Bitumen under HS code No 2714 b. Tractors
<p>(5) Provincial Turnover Tax</p>	<p>Charged on whole sale & retail sales at specified rates</p>	<p>Turnover tax is to be abolished with effect from 01.01.2011</p>
<p>(6) Debit Tax</p>	<p>0.1%, chargeable on amount of the debit during each calander month againsts any current or savings account with commercial bank of specialised bank, and against encashment of certificate of deposits</p>	<p>Proposed to be abolished</p>
<p>(7) Other Taxes and Levies</p> <ul style="list-style-type: none"> (a) Levy on room prices of five star hotels having room rate below US\$125. (b) Social Responsibility Leavy (c) Share transaction levy 	<ul style="list-style-type: none"> N/A 1.5% 2% 	<ul style="list-style-type: none"> US\$ 20 (per bed) Proposed to be abolished 3%

Description	Prevailing	Proposed
Other Taxes and Levies. Contd..		
(c) Levies on telecommunication industry		
-Cellular mobile telephone subscriber levy (CMTSL)	10%	Proposed to be abolished
- Levy on telecommunication service	N/A	20%
- License fee on gross revenue	N/A	2%

This document is designed for the clients of SBN Associates to provide quick & easy reference to the proposed changes in tax system by the Budget 2011. The selected information contained in this document is of general nature and is not intended to address the circumstances of any individual or entity. Although we have made every effort to provide accurate and timely information, there can be no guarantee that this information is accurate & up to date. None of our clients should act on this information without our professional advice on the particular situation

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