

Sri Lanka Budget 2016

Summary of Fiscal & Tax Implications



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Highlights

Income Tax

- Only 02 bands of corporate income tax rates - a higher rate of 30 percent and a standard rate of 15 percent

VAT

- VAT rates revised to 3 bands as 0%, 8% and 12.5%

NBT

- NBT rate increased to 4%

ESC

- ESC rate increased to 0.5% & liability extended to profit making entities as well

PAYE

- PAYE tax free annual threshold increased to Rs.2.4 million

Stamp Duty

- Stamp duty on local credit card purchases removed

TDL & STL

- Tourism Development Levy & Share Transaction Levy removed

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1 Income Tax

1.1 Corporate Income Tax

Corporate income tax rate structure will be redesigned to two-rate band system from current multi band system with a higher rate of 30 percent and a standard rate of 15 percent.

Higher rate will be applicable for the profit and income of betting and gaming, liquor, tobacco and banking and financial services, including insurance and leasing industry and the trading activities.

All the other sectors will be subject to the standard rate of 15 percent. The identified long term concessions such as institutional, miscellaneous and other exemptions granted without having any policy rationale will be revisited.

In order to ensure that shareholders get a reasonable dividend for their investment, the minimum amount of dividend to be distributed by quoted companies will be increased to 15 percent of the distributable profits.

1.2 Personal Income Tax

At present, employees whose annual income is over Rs.750,000/- are liable for PAYE tax which is a progressive tax. The maximum tax rate is 16 per cent.

With a view to further simplifying the PAYE tax system and to ensure better compliance, the tax free annual threshold is proposed to be increased to Rs.2.4 million and the PAYE tax over and above this limit to be charged at a uniform 15 percent and the taxable income will be inclusive of all the earnings by the employee with no exemptions.

This method and rate will also be applied for individual income earners instead of the present progressive rate of up to 24 percent.

1.3 Withholding Tax on Interest Income

The 2.5 percent withholding tax on deposits is abolished with effect from 01 January, 2016.

1.4 Surtax on Tobacco, Liquor and Casinos

Surtax at the rate of 25 percent of income tax liability is proposed on Tobacco, Liquor and Casinos industries.

2 Economic Service Charge (ESC)

Presently, ESC is imposed only for loss making businesses or exempt businesses.

The present exclusion of profit making businesses and the minimum threshold of payment of Rs 120 million per year will be removed and the applicable rate will be increased to 0.5 per cent. In addition, the period of carried forward balances will be limited to 3 years.

3 Value Added Tax (VAT)

The present single rate will be revised to 3 bands 0%, standard rate of 8% and 12.5% higher rate for service sector and the minimum threshold for the liability for VAT will be Rs.12 million per annum. Certain VAT exemptions will also be removed.

The wholesale and retail trade will be excluded from VAT.

4 Nation Building Tax (NBT)

NBT liable threshold will be the same as VAT and the rate will be increased to 4% and certain exemptions will also be removed.

5 Removal of Certain Taxes & Levies

At present, tax revenue is collected from around 35 types of different taxes and levies which has complicated the tax system. Therefore, with a view to simplify the tax system, following taxes are proposed to be removed.

- Share Transaction Levy
- Construction Industry Guarantee Fund Levy
- Luxury & Semi-Luxury Motor Vehicle Tax
- Tourism Development Levy (TDL)

6 Other Tax Increases for Liquor & Casino Industries

A single fee of Rs.150 million for liquor manufacturers as an annual license fee is to be imposed instead of the present complicated per bottle license fee system.

Tax on all types of foreign liquor and imported ethanol will also be increased on par with locally produced liquor-price increase.

Necessary amendments to the Excise Ordinance will be introduced to make provisions to collect a minimum Excise Duty of Rs.250 million per month from liquor manufacturers who are having distilleries and Rs.50 million per month from persons engaged only in liquor manufacturing based on the minimum quantity of liquor required to be manufactured.

The casino entrance fee imposed in the last budget will be removed and the annual levy imposed on the business of gaming other than rujino, will be increased to Rs.400 million.

7 Revisions to Motor Vehicle Taxes

7.1 Unit Rate on Excise for Vehicles

The new valuation system was introduced recently taking full option manufactures price as the tax base.

To further strengthen this process of collecting the duly payable taxes, a simple unit rate of excise duty for the vehicles on the basis of cubic centimeters is proposed. Duties on the percentage basis on certain vehicles will also be revised.

7.2 Tax Incentives for Environment Friendly Vehicles

Excise duty is reduced to 2.5 percent for the vehicles which are run entirely on Solar, Hydrogen or Helium.

7.3 Motor Vehicle Entitlement Certificate

The present motor vehicles import registration license fee for importers who import motor vehicles for business purposes is to be replaced by a vehicle import fee to obtain a

Vehicle Entitlement Certificate for each vehicle at Rs. 2,000 per Motor Cycle and Three Wheeler, Rs.15,000/- for a Motor Car and Rs.10,000/- per vehicle for all other vehicles.

7.4 Revenue License and Emission Test

The fee charged on the certificate of emission test will be increased to Rs. 5,000.

7.5 Concessionary Permit Schemes

All the vehicle permits granted under different schemes, including to Parliamentarians will be discontinued.

8 Stamp Duty Reduction on Credit Cards

Presently stamp duty is levied at 1.5 percent for purchases using a credit card.

Stamp duty on credit cards for local purchases will be removed and stamp duty for foreign purchases will be increased to 2.5 percent.

9 Rationalization of Customs Duty Structure

Presently 4 tariff bands are applied for customs duty i.e. exempt, 7.5 percent, 15 percent, 25 percent and a fixed higher rate.

The 7.5 percent band will be removed and the 25 percent band will be increased to 30 percent. Accordingly, Sri Lanka will have a 3-band structure of exempt, 15 percent and 30 percent.

9.1 Ports and Airports Development Levy (PAL)

PAL will be increased from 5 percent to 7.5 percent, other than plant and machineries used for construction, dairy and agricultural industries which will be exempted.

10 Tax on Telecommunication Industry

International Telecommunication Operator Levy (ITOL) is currently charged on incoming international calls on per minute basis by USD Cents 9 per minute.

ITOL is proposed to be increased from USD Cents 9 to USD Cents 12 and total increase to be credited to the Consolidated Fund.

11 Sale in the Domestic Market by Export Oriented Companies

Export oriented BOI companies will be permitted to supply to the local market only 5 percent of its products.

12 Introduction of an Annual Registration Fee on Companies

An annual fee on all the registered companies collectible by the Registrar of Companies will be imposed. Further, a fee of Rs. 500,000/- will be imposed on voluntary liquidation of companies.

With effect from January 01, 2016, all business entities will be required to be registered with their respective local councils at a nominal fee of Rs. 100 per year. For new business entities, this registration would be a pre requisite to obtain the electricity and water connections, and loan facilities from Banks.

13 Reforms in Tax Administration

13.1 Inland Revenue Department

The first phase of the Revenue Administration Management Information System (RAMIS), to enable the automated services for filing of returns, payment of taxes, etc., will be effective from 1 January 2016.

The inclusion of the Taxpayer Identification Number (TIN) or the Business Registration Number (BRN) in all transactions in capturing all business transactions will be made mandatory.

Steps will be initiated to ensure the revenue collection at Divisional Secretariat level.

The income tax return will be simplified into a one-page document, which would be more tax-payer friendly and would lead to higher compliance.

Following provisions will be incorporated in relevant tax statutes to avoid the misuse and manipulation of tax provisions.

- Management fees will be defined especially for insurance industry and management fees paid to related parties will be disregarded.
- The present structure of penal provisions of the Inland Revenue Act will be revisited and where necessary, changes will be brought in, to strengthen the tax collection and compliance of taxpayers and tax practitioners.
- The triple deduction of Research and Development expenses will be allowed only if there is a technology advancement and yield development.
- The exemption of the interest on foreign loans will be restricted on the interest on loans taken from foreign banks or financial institutions.
- Certain exemptions on dividends, after the completion of the tax holiday period, will be removed.
- If any refund claim has been made for any year of assessment that should be finalized by the Inland Revenue Department within 3 years. If not, that amount would be allowed to be set off against future tax payable.

Tax Appeals Commission

Steps will be taken to ensure the independency of the tax appeals commission and the appellate procedure, adhering to the principles of natural justice.

13.2 Sri Lanka Customs

Approximately 80 percent of our imports are inputs for local and export oriented industries.

Considering the diverse issues investors are facing at the time of importation of materials, equipment and other goods, it has been decided to establish a "one-stop-shop" at Sri Lanka Customs, which provides all the necessary permissions, clearances and approvals at a single window platform. To fast-track this process, authorized officers from relevant government agencies, including Department of Import and Export Control, Sri Lanka Standards Institution, Consumer Affairs Authority, Inland Revenue Department, Department of Commerce, Department of Registrar of Companies Department of Agriculture, Department of Animal Production and Health etc., will be housed at the "one-stop shop".

With a view of controlling human intervention in Customs activities, and enhancing trade facilitation, submission of Import Customs Declarations electronically will be implemented by June 2016. The government agencies which provide authorization will be linked online to the SLC by 1 January 2016.

A new valuation system will be introduced to curb under invoicing of motor spare parts, tiles, tires etc with effect from January 01, 2016.

To avoid Sri Lanka being a dumping ground, the importation of used washing machines, used TVs and used mobile phones will be banned with effect from January 01, 2016.

In order to streamline the Customs activities and as a revenue protection measure, all the regular importers should be registered with the SLC from January 01, 2016.

14 Miscellaneous Taxes & Levies

14.1 Charges for Road Accidents

It is proposed to impose a fine of Rs. 10,000/- in addition to the damages to the public property, in case of a road accident.

14.2 Incentives for Thrust Industries

Sri Lanka would be free of Asbestos by 2018. In this background, to encourage the manufacturing of red clay tiles, the red clay industry will be granted a half tax holiday on income tax for a period of 3 years.

14.3 Import Taxes on Garments and Footwear

In order to achieve a balance between the accesses to branded products and to protect the local industries, a uniform rate will be applicable for garments and footwear imported or manufactured and supplied to local market by export oriented companies.

14.4 Special Commodity Levy

In order to protect the local confectionery industry the Special Commodity Levy applicable on vegetable fat will be reduced.

14.5 Tele drama Levy

Levies currently exempted on Tamil tele dramas, films and advertisements will also be extended to English tele dramas, films and advertisements as well.