

# **SOCIAL SECURITY CONTRIBUTION LEVY**

## **Salient Features**

**As per the Gazette Part II of June 17, 2022 (Issued on 21.6.2022)**



## Liability

A levy known as the “Social Security Contribution Levy” (the levy) shall be charged from every taxable person for every quarter (relevant quarter) on or after July, 1, 2022 in respect of the liable turnover, at the rate of 2.5 per centum, in the following manner:-

Taxable persons /Taxable Activities	Turnover	Liable Turnover
a. A person who imports any article;	Sum receivable whether received or not, in that quarter, of any article manufactured and sold in Sri Lanka by such person <u>other than any exempted article</u> referred to in Part IA of the First Schedule	100% of the turnover
b. A person who carries on the business of manufacture of any article;	Sum receivable whether received or not, in that quarter, of any article manufactured and sold in Sri Lanka by such person <u>other than any exempted article</u> referred to in Part IA of the First Schedule	85% of the turnover
c. A person who carries on the business of providing a service of any description	(i) Sum receivable whether received or not, from the supply in Sri Lanka of any <b>financial services</b> by any person carrying on the business of supplying any financial services in Sri Lanka <u>but does not include the exempted services</u> referred to in Part II of the First Schedule	100% of the Value addition attributable to financial services. The value addition attributable shall be computed by applying the attributable method referred to in Chapter IIIA of the Value Added Tax Act, No. 14 of 2002:  Provided however, that in calculating the value addition attributable to such financial service, where the amount of profits for each relevant quarter cannot be accurately ascertained, such amount may be estimated on the basis of available information. The estimated amount shall be adjusted to reflect the actual amount with the audited statement of accounts on yearly basis and such adjustment shall be submitted within six months after the closing date of the relevant accounting period;
	(ii)The value of any service arising from the business of <b>real estate and improvement</b> ascertained under subsection (7) of section 5 of the Value Added Tax Act, No. 14 of 2002 for the purpose of the said Act <u>but does not include the exempted services</u> referred to in Part II of the First Schedule	100% of the turnover

	(iii)The sum receivable, whether received or not, from the <b>provision of any service in Sri Lanka other than the services referred to in subparagraphs (i) and (ii) above and any exempted service referred to in Part II of the First Schedule; and</b>	100% of the turnover
<b>d. A person who carries on the business of wholesale or retail sale of any article including importation and sale of such article other than a sale by the manufacturer of that article being a manufacturer to whom the provisions of paragraph (b) above applies.</b>	The sum receivable, whether received or not, from the wholesale or retail sale of any article in Sri Lanka <u>other than any exempted article</u> referred to in Part IB of the First Schedule.	(a) Sale of any article by a registered distributor in relation to any manufacturer or producer of any goods in Sri Lanka - 50% of the turnover.  (b) Wholesale or retail sale other than item (a) above including importation and sale - 25% of the turnover.

Turnover for the relevant quarter shall not include –

- a. any bad debt incurred by such person in that quarter:  
Provided however, any bad debt recovered in any relevant quarter, shall be included in the turnover of that relevant quarter; or
- b. any value added tax under the Value Added Tax Act, No. 14 of 2002 paid for that relevant quarter; or
- c. any rebate paid under the Export Development Rebate in relation to any international event as approved by the Minister.

### Registration

- (1) Every taxable person (other than a taxable person imports an article), who carries on or carries out any taxable activity shall be required to be registered under the Act by making an application for such purpose to the Commissioner-General of Inland Revenue in the specified form-

- a. **not later than fifteen days from the date of operation of this Act**, in the case of a taxable person whose **aggregate of the turnover, within the twelve months period immediately prior to the date of operation of this Act, exceeded one hundred and twenty million rupees**;
  - b. not later than fifteen days from the date on which the **aggregate of the turnover for a quarter exceeds or is likely to exceed thirty million rupees**, in the case of a taxable person to whom paragraph (a) does not apply.
- (2) Where the Commissioner-General is of the opinion that the turnover of any person referred above relates to **a single isolated transaction**, such turnover may be excluded in calculating the total turnover of such person for the purpose of registration under this section.

## Return

- (1) Every registered person shall furnish to the Commissioner-General a return either in writing or by electronic means for every quarter **on or before the twentieth day of the month after the end of each relevant quarter**. Every such return shall be in the form specified by the Commissioner-General.
- (2) Penalty to fail to file a return is a sum not exceeding fifty thousand rupees.

## Payment

- (1) Every registered person shall account for levy on an **accrual basis**.
- (2) Every registered person shall pay the levy payable by such person **on or before the twentieth day of the immediately succeeding month of the relevant month of that quarter** to the Commissioner-General, in such manner as may be specified by him.
- (3) Where the payment of any levy is in default, the defaulter shall, in addition to such levy in default pay as penalty –
  - a. a sum equivalent to ten per centum of the amount in default; and
  - b. where the amount in default is not paid before the last day of the month succeeding the month in which such levy has begun to be in default, a further sum, equivalent to two per centum of the amount in default in respect of each period ending on the last day of each succeeding month or part of such period during which it is in default:

Provided however, that the total amount payable as penalty under this subsection shall in no case exceed one hundred per centum of the levy in default and any such amount may be waived or reduced if the Commissioner- General is satisfied that by reason of any special circumstances in which the default occurred, waiver or reduction of such amount would be just and equitable.

## Levy on Imports

- (1) The Director General of Customs shall collect from every taxable person, the levy chargeable from such person in respect of every article imported by such person, **at the time such article is imported**, and shall make an endorsement on the import invoice relating to such article specifying the amount so collected.
- (2) Any amount collected shall be deemed to be the levy chargeable in respect of the turnover arising from the importation of such article and shall be deemed to have been paid by such person to the Commissioner-General on the day on which such amount was so collected.
- (3) Any amount collectible by the Director General of Customs for the purpose of collection and recovery of such amount, be deemed to be customs duty chargeable under the Customs Ordinance (Chapter 235) and accordingly, the provisions of the Customs Ordinance (Chapter 235) shall apply to the collection and recovery of such amount.

### Islamic financial transaction

The turnover arising from any Islamic financial transaction shall be subject to levy in a similar manner as equivalent in substance to non-Islamic financial transactions.

### Interpretations

“**article**” includes any goods, material or any agricultural or horticultural produce

“**Freight Forwarder**” shall have the same meaning as in the Licensing of Shipping Agents, Freight Forwarders, Non Vessel Operating Common Carriers and Container Operators Act, No.10 of 1972

“**importation**” excludes bringing any article in the personal baggage of the passenger into Sri Lanka [“baggage” shall have the same meaning as in section 107A of the Customs Ordinance (Chapter 235)]

“**manufacture**” means any process for–

- (a) making an article;
- (b) assembling or joining any article whether by chemical process or otherwise;
- (c) adapting for sale any article; and
- (d) packaging, bottling, putting into boxes, cutting into pieces, cleaning, polishing, wrapping, labeling, or in any other way whatsoever preparing for sale any article otherwise than in a retail store for the purpose of sale in such store exclusively and directly to the consumer

“**quarter**” means the period of three months commencing on the first day of January, April, July or October of any year

“**registered distributor**” in relation to any manufacturer or producer of any goods in Sri Lanka means any person or partnership appointed by such manufacturer or producer for the sale in the wholesale market, of such goods, at such price as may be determined by such manufacturer or producer, from time to time

“**service**” includes any business of real estate and improvement thereon

“**supply of financial services**” shall have the same meaning assigned to such expression under section 25F of the Value Added Tax Act, No.14 of 2002

## FIRST SCHEDULE – Part 1A

### EXEMPTED ARTICLES

1. Any article exported by the manufacturer;
2. Any article not being a plant, machinery or fixture imported by any person exclusively for the use in, or for, the manufacture of any article for export;
3. Any article sold by a taxable person to any exporter, if the Commissioner-General is satisfied on the production of any documentary evidence that such article or any other article manufactured, of which such article is a constituent part, has in fact been exported from Sri Lanka by such exporter directly or through a trading house established for export purposes;
4. Any article which is imported, is proved to the satisfaction of the Commissioner- General, that such article is imported to Sri Lanka for–
  - (a) the display at an exhibition;
  - (b) the temporary use in Sri Lanka in any project approved by the Minister;

- (c) the purposes of repairs to that article to be carried out in Sri Lanka;
  - (d) any other similar purpose, and is to be re-shipped, within a period of one year from the date of importation of such article to Sri Lanka or within a period of ninety days after the completion of such project; or
  - (e) producing any cinematographic film or teledrama in Sri Lanka and taking out of Sri Lanka for further processing or printing with the approval of the National Film Corporation;
5. Any article imported, if proved to the satisfaction of the Director-General of Customs, that such article was, prior to its importation, taken out of Sri Lanka for repairs;
  6. Any spare part imported by any airline or shipping company, if proved to the satisfaction of the Commissioner-General, that such spare part is to be used for the maintenance of any aircraft or ship, used in international traffic and owned or chartered by such airline or shipping company;
  7. Any article sold, to the United Nations Organization or to any specialized agency of such organization or to the diplomatic mission of any foreign Government or to any member of the diplomatic staff of such mission or to any other person approved by the Minister on the recommendation of the Minister of Foreign Affairs as being of the status of a diplomatic mission;
  8. Any article imported if such article is subject to the Special Commodity Levy charged under the Special Commodity Levy Act, No. 48 of 2007;
  9. Fertilizer;
  10. Petroleum and petroleum products other than lubricants classified under Harmonized Commodity Description and Coding Numbers for customs purpose;
  11. L.P. Gas;
  12. Pharmaceuticals identified under the Harmonized of Commodity Description and Coding System;
  13. Tea supplied by the Manufacturer being a manufacturer registered with the Sri Lanka Tea Board established by the Sri Lanka Tea Board Law, No. 14 of 1975, to any registered broker for sale at the Colombo Tea Auctions;
  14. Any article for the use in any project approved by the relevant Minister and by the Minister in charge of the subject of Finance taking into consideration the economic benefit to the country and where the tax in respect of such project is borne by the Government;
  15. Bitumen classified under HS code No. 2714;
  16. Raw materials or packing materials imported for the manufacture of pharmaceuticals subject to the approval of the relevant authority;

17. Plant, machinery or equipment imported on temporary basis for the use of large-scale infrastructure development projects approved by the Minister in charge of the subject of Finance as being of beneficial for the economic development of Sri Lanka, on condition that goods will be re-exported after the completion of work;
18. Foreign currency notes imported, being notes classified under HS Codes 4907.00.90;
19. Raw materials or packing materials imported for the manufacture of ayurvedic preparations which belong to the Ayurveda Pharmacopoeia or ayurveda preparation subject to the approval of the relevant authority;
20. Pure-bred breeding animals under HS 0102.10 or HS 0104.20.10, milking machines under HS 8434.10, dairy machinery under HS 8434. 20 and spare parts under HS 8434.90, at the point of importation;
21. Solar panel modules, accessories or solar home systems for the generation of solar power energy classified under Harmonized Commodity Description and Coding Numbers for custom purposes at the point of importation;
22. Coal;
23. Any article manufactured by a company identified as a Strategic Development Project in terms of subsection (4) of section 3 of the Strategic Development Project Act, No. 14 of 2008 sold to another Strategic Development Project or to a specialized project approved by the Minister of Finance or to a company registered with Board of Investment of Sri Lanka established under the Board of Investment Law, No. 4 of 1978, so far as such articles are considered as import replacement and supplied during the project implementation period; and
24. Any machinery or equipment imported or purchased locally for the purpose of generating electricity by the Ceylon Electricity Board established under the Ceylon Electricity Board Act, No. 17 of 1969 or any institution which has entered into an agreement with the Ceylon Electricity Board to supply electricity, being machinery or equipment classified under Harmonized Commodity Description Coding Numbers for customs purposes and approved by the Minister of Finance.

## First Schedule - Part 1B

### EXEMPTED ARTICLES

1. Pharmaceuticals;
2. Any article which is subject to the Special Commodity Levy under the provisions of the Special Commodity Levy Act, No. 48 of 2007, where such article is sold by the importer of such article without any processing except for adaption for sale;



3. any article exported;
4. petrol, diesel or kerosene sold in a filling station;
5. L.P. Gas; and
6. fresh milk, green leaf, cinnamon or rubber (latex, crepe or sheet rubber) purchased from any local manufacturer or local producer.

## First Schedule - PART II

### EXEMPTED SERVICES

1. Generation of electricity and supply of electricity other than the supply of electricity by Ceylon Electricity Board established under the Ceylon Electricity Board Act, No. 17 of 1969;
2. Medical services;
3. Supply of water;
4. Transportation of goods and passengers;
5. Services provided to any exporter of any article, being services directly related to improving the quality and character of such article;
6. Services of sewing garments provided to any exporter of such garments;
7. Services of a freight forwarder and a shipping agent licensed under the Licensing of Shipping Agents, Freight Forwarders, Non Vessel Operating Common Carriers, and Container Operators Act, No. 10 of 1972 or courier services in so far as such services are in respect of the exporter of any article from Sri Lanka;
8. Services provided by a public corporation, in so far as such services are in respect of the exportation of any article from Sri Lanka;
9. Services of an auctioneer, broker, insurance agent or commission agent of any local product to the extent of the brokerage receivable by such auctioneer or broker, or commission receivable by such insurance agent or commission agent, as the case may be;
10. Services of a travel agent in respect of inbound tours operated where the payment for such services is received in foreign currency through a bank and such agent is registered with the Ceylon Tourist Board;

11. Client support services provided over the internet, telephone or by an enterprise, exclusively for the provision of such services, to one or more identified clients outside Sri Lanka, for payment in foreign currency;
12. The business of life insurance;
13. Distribution, production and supply of any cinematographic films primarily for exhibition in cinemas;
14. Exhibiting films in a cinema;
15. Any service provided to the United Nations Organization or to any specialized agency of such organization or to the diplomatic mission of any foreign Government or to any member of the diplomatic staff of such mission or to any other person approved by the Minister on the recommendation of the Minister of Foreign Affairs as being of the status of a diplomatic mission;
16. Any service rendered in or outside Sri Lanka to any person or partnership outside Sri Lanka for the utilization out of Sri Lanka for payment in foreign currency, if such foreign currency is remitted to Sri Lanka through a bank;
17. Services provided to any specific project carried on, out of foreign funds or donations received by the Government, as approved by the Minister considering the economic benefit to the country;
18. Any service provided by the Central Bank of Sri Lanka established under the Monetary Law Act (Chapter 422);
19. Any service provided free of charge by any public corporation out of the funds voted by Parliament from the Consolidated Fund or out of any loan arranged through the Government, on behalf of the Government;
20. Services provided by any Government Department, Ministry or any Local Authority;
21. Services provided by foreign consultancies for the large-scale infrastructure development projects being projects which have been approved by the Minister of Finance, as beneficial for the economic development of Sri Lanka;
22. Services provided in relation to ship building for the international market for payments made in foreign currency; and
23. Any service provided by the Employee's Trust Fund, Provident Fund, Pension Fund, Pension Trust Fund and Gratuity Fund.

*If you need any clarifications, contact*

**Manaram de Mel** – Senior Practitioner

0773246227 / [demel@mdmlk.com](mailto:demel@mdmlk.com)

**Selvarasa Thanusha** – Manager

0769262982 / [thanusha@mdmlk.com](mailto:thanusha@mdmlk.com)



**Chartered Accountants**

224, 2nd Floor, Bernards Business Park  
No.106, Dutugemunu Street  
Dehiwala, Sri Lanka.