TAX PROPOSALS – 2022

Tax reforms proposed to be implemented over the immediate and near term as published by Prime Minister's Media Division on May 31, 2022

MdM ASSOCIATES

Proposed Tax Reforms

1. Income Tax

a) Personal Income Tax (PIT)

i. Reduction of the personal relief from Rs. 3 million to Rs. 1.8 million effective from October 1, 2022.

ii. Revision of Personal Income Tax Rates effective from October 1, 2022 as detailed in the table below:

Taxable Income (Rs.)	**Rate (%)**
First 1.2 million	4
Next 1.2 million	8
Next 1.2 million	12
Next 1.2 million	16
Next 1.2 million	20
Next 1.2 million	24
Next 1.2 million	28
On the balance	32

b) Withholding Tax (WHT)

i. Making APIT/ Withholding Tax on Employment Income (PAYE) mandatory for all taxpayers exceeding the personal relief of Rs. 1.8 million per year of assessment effective from October 1, 2022.

ii. Making AIT/ Withholding Tax mandatory for all taxpayers and consider AIT on interest of individual taxpayers and dividends as final payments effective from October 1, 2022. Deduction of AIT will be at the following rates.
   a. Interest -5 percent
   b. Dividend – 14 percent
   c. Rent – 10 percent on rent exceeding Rs. 100,000 per month
   d. In all other cases – 14 percent

iii. Imposing Withholding Tax on service payments exceeding Rs. 100,000 per month made to individuals such as professionals at the rate of 5 percent effective from October 1, 2022.

iv. Re-introduction of relief on interest income of Rs. 1.5 million for senior citizens effective from October 1, 2022.

c) Corporate Income Tax (CIT)

i. Increasing the standard CIT rate from 24 percent to 30 percent and increasing the concessionary CIT rate from 14 percent to 15 percent effective from October 1, 2022. However, the rates applied to manufacturing (18 percent) and liquor and tobacco, and betting and gaming (40 percent) remain unchanged.

ii. Making dividends paid by a resident company to non-resident person liable to income tax effective from April 1, 2023.

iii. Removing the following income tax holidays granted under the previous amendment. This will not apply to projects or undertakings commenced prior to March 31, 2023.

- Ten-year tax exemption period for an undertaking that sells construction materials recycled in a selected separate site established in Sri Lanka to recycle the materials which were already used in the construction industry.

- Five-year tax exemption period for any business commenced on or after April 1, 2021 by an individual after successful completion of vocational education from any institution which is standardized under TVET concept and regulated by the Tertiary and Vocational Education Commission.

- Seven-year tax exemption period for an undertaking commenced by a resident person in manufacturing of boats or ships in Sri Lanka and received or derived any gains and profits from the supply of such boats or ships.

- Five-year tax exemption period for any undertaking commenced on or after January 1, 2021 by any resident person who constructs and installs the communication towers and related appliances using local labour and local raw materials in Sri Lanka or provides required technical services for such construction or installation.

- Any undertaking for letting bonded warehouses or warehouses related to the offshore business, in Colombo and Hambantota ports, if such person has invested in such warehouses effective from April 1, 2021.

iv. Removal of additional deduction granted for expenses related to Marketing and Communication effective from April 1, 2023.

v. Revisiting the definition given for “multi-national companies” under the Inland Revenue Act, No. 24 of 2017 effective from April 1, 2023 to improve the clarify of the definition.

vi. Making any other consequential amendments due to the above proposals.

2. Value Added Tax (VAT)

i. Increasing VAT rate from 8 percent to 12 percent with immediate effect.

ii. Decreasing VAT threshold from Rs. 300 million per annum to Rs. 120 million per annum effective from October 1, 2022.

iii. Reviewing VAT exemption schedule and removal of unproductive exemptions based on the economic benefits.

iv. Removal of the VAT exemption on Condominium Residential Apartments effective from October 1, 2022.

v. Removal of zero percent VAT rate granted on the supply of services by a hotel, guest house, restaurant or other similar businesses providing similar services, registered with the Sri Lanka Tourism Development Authority, if sixty per centum of the total value of the inputs are sourced from local supplies/sources and imposition of 12 percent tax rate on the same effective from October 1, 2022.

vi. Making any other consequential amendments due to the above proposals.

3. Telecommunication Levy

To increase the Telecommunication Levy from 11.25 percent to 15 percent with immediate effect.

4. Betting and Gaming Levy

With effective from January 1, 2023.

i. Increasing Annual Levy for carrying on the business of gaming from Rs. 200 Mn to Rs. 500 Mn.

ii. Increasing Annual Levy for betting
   a. From Rs. 4 Mn to Rs. 5 Mn when it is carried on through agents
   b. From Rs. 0.6 Mn to Rs. 1 Mn when it is carried on using live telecast facilities
   c. From Rs. 50,000 to Rs. 75,000 when it is carried on without the use of live telecast facilities

iii. Increasing the rate of the levy on Gross Collection from 10 percent to 15 percent.

5. Revenue Administration

In addition to the above tax policy reforms, steps will be taken to strengthen revenue administration at revenue collecting agencies such as Sri Lanka Customs, Inland Revenue Department and Excise Department with the infusion of technology and rigorous tax audits.

6. Amendments to the Fiscal Management (Responsibility) Act, No. 3 of 2003

i. Inclusion of a provision where exceeding the Treasury Guarantee limit (15 percent of the GDP for the current financial year along with the two preceding financial years) is permitted in the case where there is an exceptional depreciation or other unforeseen circumstances.

ii. Inclusion of an escape clause to ensure flexibility that the Government may deviate from the operational target(s) or fiscal rule(s) due to unforeseen circumstances. This would eliminate the need to continually amend the Act each time when a target is breached.

If you need any clarifications, contact

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