

Sri Lanka

PwC contact

Sujeewa Mudalige
PricewaterhouseCoopers
100 Braybrooke Place
Colombo 2
Sri Lanka
Tel: +94 11 7 719700 ext. 5001
Email: sujeewa.mudalige@lk.pwc.com



Significant developments

The significant development in the Sri Lanka tax scene is the enactment of the New Inland Revenue Act, No. 24 of 2017, which took effect from 1 April 2018. The New Inland Revenue Act is aimed at simplifying the tax system, make the tax system more equitable and efficient, and help generate more revenue for social and economic development purposes. The New Act departs from the hitherto practice of granting liberal tax exemptions and concessions, provides tax relief for a limited category of investment incentives, eliminates multiplicity of corporate tax rates by introducing a three tier corporate rate structure, and simplifies the expense deductibility rule. It seeks to enhance revenue generation by broadening the tax base, in particular by eliminating the vast range of tax holidays, partial tax holidays, reliefs, and other concessions; introducing taxation of capital gains; and expanding the coverage of withholding taxes (WHTs).

The rules and procedures in relation to corporate income tax (CIT), which are set out in sections that follow, are based on the provisions of the New Inland Revenue Act, No. 24 of 2017.

Taxes on corporate income

Resident companies and public corporations are liable for CIT on their worldwide taxable income. Further, a friendly society, building society, pension fund, provident fund, retirement fund, superannuation fund, or similar fund or society are also deemed a company. A partnership having more than 20 partners who have limited liability for the debts of the partnership also treated as a company. Similarly, a unit trust or a mutual fund that does not conduct an eligible investment business is also treated as a company, and in all such cases corporate tax is applicable. Non-resident companies are liable for CIT in respect of any business, investment, or other source to the extent that the income arises in or is derived from a source in Sri Lanka.

Prior to year of assessment 2018/19, CIT rates are based on the nature of the income and the institution earning the income, as provided in the following table.

Income/Institution	2017/18 CIT rate (%)
Undertaking for manufacture of any product for export or for supply to an exporter for export, being a product having domestic value addition over 65% and a Sri Lanka brand name with patent rights received in Sri Lanka	10
Undertaking for operation and maintenance of facilities for storage, local development of software, or supply of labour	10

Income/Institution	2017/18 CIT rate (%)
Agricultural undertakings referred to in Section 16 of the Act	10
Educational services	10
Undertaking (not being a holding company, subsidiary company, or any associate company of a group of companies) with an annual turnover not exceeding 750 million Sri Lankan rupees (LKR), other than buying and selling activities	12
Undertaking (not being a holding company, subsidiary company, or any associate company of a group of companies) with an annual turnover not exceeding LKR 500 million, other than buying and selling activities	-
Unit trusts and mutual funds *	10
Unit trust management companies	10
Profits on poultry farming	10
Shipping agents approved by the Director of Merchant Shipping in respect of profits attributable to agency fees connected to transshipment activity and received in foreign currency	12
Companies engaged in non-traditional export (other than exempt), including deemed exporters and suppliers of specified services to garment exporters; performance of any service of ship repair, ship breaking, and refurbishment of marine cargo containers; and provision of computer software, programmes, systems, or recording of computer data paid for in foreign currency	12
Undertakings engaged in agriculture, manufacture of animal feed, promotion of tourism, or construction work carried on by a resident person	12
Venture capital companies	12
Petroleum exploration	12
Local manufacture of handloom products	12
Healthcare services	12
Joint venture between a grower cum manufacturer or a manufacturer of tea with a tea exporter for exporting Sri Lanka tea in value added form, on the manufacturing income attributable to the quantum of tea purchased	12
Profits from operating any mini hydropower project or other alternative energy source	12
Profits on supply of goods manufactured in Sri Lanka or provision of services to foreign ships for payment in foreign currency	12
Profits on sale of any product manufactured in Sri Lanka for payment in foreign currency through a foreign exchange earning account	12
Profits on export of organic tea in bulk	12
Undertaking for the manufacture of sugar	12
Sale of goods manufactured in Sri Lanka by an export-oriented Board of Investment (BOI) enterprise, up to the quantity approved by the BOI, to:	12
<ul style="list-style-type: none"> any BOI enterprise enjoying tax holiday under Section 16C, 16D, or 17A of the Inland Revenue Act or the Strategic Development Projects Act that is permitted to import project-related goods or raw materials on a duty-free basis during the project implementation period, or any person eligible to import specific goods on a duty-free basis under any government authority. 	
(Treated as deemed export of the manufacturer.)	
Profits and income of any company listing its shares on or after 1 April 2013 and issuing more than 20% of its shares to the general public for the tax year in which such shares are listed and for two years of assessment immediately succeeding that year of assessment	50% of the applicable rate
Research and development (R&D) activities	20
Branch of commercial bank dedicated to development banking	24
Banking and financial services, insurance industries, trading activities (including any primary preparation for the adapting for sale of any article)	28
Manufacture and sale, or import and sale, of liquor or tobacco products	40

Income/Institution	2017/18 CIT rate (%)
Business of lottery, betting, or gaming activity	40
Profit and income from business, other than stated above	28
Other sources (e.g. dividends, interest income, royalties)	28

* Unit trusts and mutual funds are treated as resident companies for CIT purposes if such unit trust or mutual fund does not conduct eligible investment business. Eligible business means a business or investment comprising predominantly of owning, investing, or trading in capital assets, financial instruments, or other similar assets.

Commencing from the year of assessment 2018/19, companies are taxed only under three income tax rates: 14%, 40%, and 28%, as listed below. In order to apply a lower tax rate for an undertaking, it should have more than 80% from such identified undertaking which is considered predominant.

Income/ Institution	CIT rate (%)
Small and medium enterprises (SMEs) that conduct business in Sri Lanka, which do not have an associate that is an entity and with an annual turnover less than LKR 500 million	14
Predominantly conducting of a business of exporting goods and services (exports includes specified undertakings *)	14
Predominantly conducting of a business of an agricultural business	14
Business consisting of betting and gaming, liquor, and tobacco	40
Companies predominantly providing educational services	14
Companies predominantly engaged in an undertaking for the promotion of tourism	14
Companies predominantly providing information technology services	14
Profits and income from business other than stated above (including unit trusts and mutual funds)	28
Gains from the realisation of investment assets	10

* Specified undertaking means an undertaking that is engaged in:

- Entrepot trade involving import, minor processing, and re-export.
- Offshore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing the same into Sri Lanka.
- Providing front-end services to clients abroad.
- Headquarters operations of leading buyers for management of financial supply chain and billing operations.
- Logistic services such as bonded warehouse or multi-country consolidation in Sri Lanka.
- Transshipment operations.
- Freight forwarding.
- Supply of services to any exporter of goods or services or to any foreign principal of such exporter directly, being services which could be treated as essentially related to the manufacture of such goods or provision of such services exported by such exporter either directly or through any export trading house, including any service provided by an agent of a ship operator to such agent's foreign principal, and the payment for such services are made by such exporter or foreign principal to such person in Sri Lanka in foreign currency.
- Production or manufacture and supply to an exporter of non-traditional goods.
- The performance of any service of ship repair, ship breaking repair, and refurbishment of marine cargo containers, provision of computer software, computer programmes, computer systems or recording computer data, or such other services as may be specified by the Minister by notice published in the Gazette, for payment in foreign currency.
- Sale for foreign currency of any gem or jewellery, being a sale made in Sri Lanka by any person authorised by the Central Bank of Sri Lanka to accept payment for such sale in foreign currency.

Dividend tax

A dividend tax is payable at 14% (prior to 1 April 2018, it was at 10%) on the gross dividends distributed by a resident company, other than such dividends distributed