



Tax data

Year of Assessment 2021–22

Sri Lanka

February 2022

Sri Lanka tax data for 2021–22

Personal tax

Employee benefits

Benefit	Value for the tax purpose
• Any benefits to the employee or associate	Fair market value
• Payments or gifts related to employment	Amount received or value
• Shares allotted under an employee share scheme	Market value minus employees contribution

Payments or benefits exempted

- Dental, medical, or health insurance expenses if the benefit applicable for employees on equal terms
- Payments or benefits accruing to employees in common
- The value of a right or option to acquire shares at the time of grants (liable only on allotment)
- Compensation or gratuity payment for personal injuries or death
- Government pension and benefit from the road vehicle permit
- Retirement benefit being the refund of,
 - (i) provident fund
 - (ii) the investment income representing the amount derived by EPF, ETF, or any pension fund after 1 April 1987

Deductions from assessable income

A. Qualifying payments – Individuals

- Donation to an approved charity in money – Up to LKR 75,000
- Donation in money or otherwise to,

The government, a local authority, higher education institutions, funds of government or local authorities, Sevana Fund, Api Wenuwen Api Fund, and National Kidney Fund

- Contribution made in money or otherwise to establish a shop for a female individual who is from a Samurdhi beneficiary family as recommended and confirmed by the Department of Samurdhi Development
- Expenditure incurred in the,
 - production of a film at a cost of not less than LKR 5 million;
 - construction and equipping of a new cinema at a cost of not exceeding LKR 25 million; and
 - upgrading of a cinema at a cost of not exceeding LKR 10 million;

shall be restricted to one-third of the taxable income. The amount not deducted can be carried forward and claimed in the subsequent years.

B. Reliefs – Resident individuals

- Tax-free allowance – LKR 250,000 per month (LKR 3,000,000 per annum)
- Repairs, maintenance, and depreciation allowance on rent – 25 percent of the total rent
In case of a resident individual, the following expenditure up to a total of LKR 1,200,000 incurred during the year of assessment (Y/A) could be deducted as relief.

- Health expenditure, including contribution to medical insurance
- Educational expenditure incurred locally for such individuals or on behalf of their children
- Interest paid on housing loans
- Contribution made to an approved pension scheme
- Expenditure incurred for the purchase of equity or security

Solar panel acquisition

- Acquisition of solar panels to fix on premises and connect them to the national grid; LKR 600,000 for each year of assessment; up to a total expenditure on such solar panels or the amount paid to a bank in respect of any loan obtained to acquire such solar panels.

C. Relief – Non-resident being a citizen of Sri Lanka

Tax-free allowance – LKR 250,000 per month (LKR 3,000,000 per annum)

Exemptions

- Compensation payment for personal injuries or death
- Gain from the realisation of investment assets that does not exceed LKR 50,000 or total gains for a Y/A does not exceed LKR 600,000
- Gain from the realisation of a residence, if that individual owned the house for three years before the sale and lived for at least 2 of those 3 years
- Gains from the realisation of quoted shares
- Any prize received from the president for invention created or research undertaken
- Any sum received from the president's fund or National Defence Fund
- Children (under 18 years of age) and interest up to LKR 5,000 per month
- Interest, discount, or realisation of any gain on any sovereign bond denominated in a local or foreign currency by any non-resident person other than Sri Lanka Permanent Establishment
- Annuity received by a senior citizen for life or not less than 10 years from banks or financial institutions
- Winnings from a lottery that do not exceed LKR 500,000
- Profit from the sale of gem at an auction on which withholding tax (WHT) is deducted
- Interest received by any person from the sovereign bond, including Sri Lanka Development Bonds, in a foreign currency
- Interest received by a person on NRFC and RFC accounts
- Gain made by a person from the realisation of land or building that was sold, exchanged, or transferred to a real estate investment trust listed in the Colombo Stock Exchange and licensed by the Securities and Exchange Commission of Sri Lanka
- Interest or discount paid or allowed, as the case may be, on any sovereign bond, including Sri Lanka Development Bonds, denominated in a foreign currency
- Interest accruing to or derived by people,
 - outside Sri Lanka on any loan granted to people in Sri Lanka or to the government of Sri Lanka by such people
 - on money lying to their credit in a foreign currency in any foreign currency account opened by them or on their behalf, in any commercial or specialised bank, with the approval of the Central Bank of Sri Lanka
 - from a term deposit account titled "Special Deposit Account" opened and maintained with an authorised dealer in Sri Lanka
- Any sum received by any person from the President's Fund established under the President's Fund Act No. 7 of 1978 or the National Defence Fund established under the National Defence Fund Act, No. 9 of 1985
- Dividend paid by a resident company to a member who is a non-resident person.
- Benefits received or derived by employees of the Sri Lankan government from a road vehicle permit issued to them.

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- Dividends and gains on the realisation of units or amounts derived as gains from the realisation of capital assets of a business or investment by a unit holder, from a real estate investment trust listed in the Colombo Stock Exchange and licensed by the Securities and Exchange Commission of Sri Lanka
- Any amount derived by any non-resident person as any payment for aircraft and software licences or as for other related services from Sri Lankan Airlines Limited
- The gains and profits earned or derived by any person from the sale of produce from agro farming of such a person within a period of five years
- Providing information technology and enabled services
- Any service rendered in or outside Sri Lanka to any person to be used outside Sri Lanka, where the payment for such services is received in foreign currency and remitted through a bank to Sri Lanka any foreign source
- The gains and profits earned or derived by any person from any amount derived by any non-resident person from laboratory or standards certification services

Income tax rate

Taxable income (LKR)	Rate	Tax (LKR)
First 3,000,000	6%	180,000
Next 3,000,000	12%	360,00
Balance	18%	540,000+18% on balance

Terminal benefits

Commutation of pension, retiring gratuity, and compensation (uniform) for loss of employment and payment from ETF

First	LKR 10,000,000	0%
Next	LKR 10,000,000	6%
Balance		(600,000+12% X balance)

Individual gains and profits – A maximum rate of 14%

- Consideration received in respect of gems and jewellery
- Amount received on the supply of electricity to the national grid; electricity generated using renewable energy resources by any individual

Capital gains tax rate

Income from realisation of investment assets (capital gain) - 10%

Fixed rate applicable for individuals

Income from a business consisting of betting and gaming, and liquor (only import and sale or manufacture) or tobacco - 40%

Corporate tax

Qualifying payments

The same payments already mentioned for individuals

However, the deduction in respect of donation to charities is limited to – LKR 500,000 or 1/5 of the assessable income whichever is lower

Tax rates for companies

Concessional rate of 14%

- Small and Medium Enterprises (SMEs)
(the company's or the associate's aggregate annual gross turnover: < LKR 500 million)
- Sale of goods or merchandise for the receipt in a foreign currency through a bank
- Specified undertaking
- Agro processing
- Educational services
- Undertaking for the promotion of tourism
- Construction services
- Healthcare services
- Promotion of tourism
- Dividends received from a resident company
- Consideration received in respect of gems and jewellery
- Gains and profits from the supply of electricity to the national grid; electricity generated using renewable energy resources by a company

Higher rate of 40%

Income from a business of:

- betting and gaming, liquor (only import and sale or manufacture), and tobacco

Standard rate

On the taxable income of a company,

(other than those on which 14%, 0%, or 40% is applicable) - 24%

Profit from the manufacturing company – 18%

Other concessions

- Aggregate income tax payable by any company that lists its shares on or after 1 January 2021, but before 31 December 2021, in the Colombo Stock Exchange: 50% reduction in income tax payable
- Income tax payable on gains and profits from dividends by any multinational company: 25% reduction and 50% reduction for the two years of assessment immediately succeeding that year of assessment (conditions applied)

Remittance tax – 14%

Non-resident companies on the profits remitted out of Sri Lanka – 14%

Note – No dividend tax is payable by resident companies on the distribution of dividend to a member who is a non-resident person (see WHT)

Tax rates – Other entities

- Charitable institutions – 14%
- employees trust fund – 14%
- Provident and pension funds – 14%
- Termination funds – 14%
(thrift, saving, or building society or welfare funds)

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- Trust – 18%
- Unit trust and mutual funds – 24% (which is not conducting an eligible business)
- NGOs – 24%
- Partnership: 6% on the excess of LKR 1,000,000

WHT rates

Resident

Winning from lottery, reward, betting, or gambling	14%
Gem sale at auction conducted by the national gems and jewellery authority	2.5%

Non-resident

Liable on the payment that has a source in Sri Lanka, subject to the Double Tax Avoidance Agreement (DTAA)

Interest (excluding exempt interest)	5%
Dividend	exempt
Gem sale at an auction conducted by the national gem and jewellery authority	2.5%
Others	14%

Tax rate for a person who engages in agro farming, along with agro processing or manufacturing

The sale of produce from agro farming of such a person is exempted for five years,

A person who uses his/her own agro farming produce for his/her agro processing or manufacturing business activity in Sri Lanka; such a portion of the tax payable shall be reduced by 25 per centum for the period of five years of assessment.

Depreciation allowance

- Computers and data handling equipment: 5 years (20%)
- Buses, goods vehicles, construction equipment, trucks, containers, and manufacturing plant and machinery: 5 years (20%)
- Railroad cars, locomotives, vessels, barges, tugs, aircraft, plant, machinery equipment, furniture, fixtures, and other depreciable assets: 5 years (20%)
- Building, structure, and similar work of a permanent nature: 20 years (5%)
- Intangible assets excluding goodwill: Actual useful life (limited to 20 years)
- Milking machines with latest technology used to manufacture local liquid milk-related products: 2 years (50%)

Note: Depreciation allowance is calculated by dividing the depreciation basis at the end of each year by the applicable number of years. The depreciation basis is the cost of acquisition increased by the subsequent addition to the cost during any year.

Enhanced depreciation

(allowance in addition to normal depreciation allowance)

- (A) Investment in buildings, permanent structure, plant and machinery (other than intangible assets) in new businesses up to US\$ 3 million (temporary concession)
- Used in places other than the Northern Province – 100%
 - Used in the Northern Province – 200%

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- (B) Investment in depreciable assets in new business and,
- i. Used in places other than the Northern Province where the total investment
 - Is between US\$ 3 million and US\$ 100 million – 100%
 - Exceeds US\$ 100 million – 150%
 - ii. Used in the Northern Province where the total expense exceeds US\$ 3 million – 200%
- (C) Improvements on leasehold land
Any building, structure, or similar work of a permanent nature constructed or made in a leasehold land by the person who made the investment shall be deemed as a depreciable asset

Additional deductions

(A) Information technology

35% of the total salary cost of the employees liable for PAYE/APIT (if the company has more than 50 employees during the entire year)

(B) For research and development

200% of the cost, subject to conditions

Deduction of losses

- Business loss: Can be set off against income from business and investment
- Investment loss: Can be set off only against income from investment
- Excess loss: Can be carried forward only for a period of six years
- Loss due to enhanced depreciation: Can be carried forward to 10–25 years
- Loss due to additional deductions of information technology: Cannot be carried forward
- Loss attributable for a lower rate or exempt profits: Shall be set off only against such a lower rate or exempt profits
- The loss incurred as a SME is deemed to be a loss that would have been subject to tax (if it were a profit), at the same rate of tax applicable to the current year. It can accordingly be set off against a higher rate applicable to the current year.

Exemptions

- Receipt of loan interest by a person outside Sri Lanka
- Receipt of interest from a foreign currency account
- Dividend paid out of **gains and profits** from dividend received by that resident company
- Dividend paid by a resident company that is engaged in the business of entrepot trade, offshore business, front-end services to client abroad, headquarter operations, and logistic services (conditions applied)
- Agricultural business
- Information technology and enabled services as prescribed
- Service rendered in or outside Sri Lanka to any person, used outside Sri Lanka for the receipt of foreign currency
- Any foreign source income for the receipt of foreign currency

Value Added Tax (VAT)

Threshold

Taxable supplies from businesses LKR 75 million p.qtr (LKR 300 million per annum)

Standard rate 8%

Direct exports of goods and specified services (zero rate) 0%

Financial services: Up to 31 Dec 2020 15%

From 1 Jan 2022 18%

- Share transaction levy: Buyer as well as seller 0.3%

Y/A 2021–22

April 2021

- 15 WHT, including Advance Personal Income Tax (APIT) deducted for March 2021
- 20 VAT and financial VAT payment for March 2021
- 30 Annual APIT declaration for 2020-21; VAT returns for the month/quarter ended 31 March 2021

May 2021

- 15 Payment of the fourth quarterly installment of income tax for Y/A 2020–21; WHT, including APIT deducted for April 2021
- 20 VAT and financial VAT for April 2021
- 31 VAT return for April 2022

June 2021

- 15 WHT, including APIT deducted for May 2021
- 20 VAT and financial VAT for May 2021
- 30 VAT return for May 2021

July 2021

- 15 WHT, including APIT deducted for June 2021
- 20 VAT payment and financial VAT payment for the month/Quarter Ended(Q.E) 30 June 2021
- 31 VAT returns for the month/Q.E. 30 June 2021

August 2021

- 15 Payment of the first quarterly installment of income tax for 2021–22 WHT, including APIT deducted for July 2021
- 20 VAT and financial VAT for July 2021
- 31 VAT return for July 2021

September 2021

- 15 WHT, including APIT deducted for August 2021
- 20 VAT and financial VAT for August 2021
- 30 VAT return for August 2021; income tax final payment for Y/A 2020–21

October 2021

- 15 WHT, including APIT deducted for September 2021
- 20 VAT payment and financial VAT payment for the month/Q.E 30 September 2021
- 31 VAT returns for the month/quarter ended 30 September 2021

November 2021

- 15 Payments of the second quarterly installment of income tax for 2021–22; WHT, including APIT deducted for October 2021
- 20 VAT and financial VAT for October 2021
- 30 VAT return for October 2021; income tax return for 2020–21

December 2021

- 15 WHT, including APIT deducted for November 2021
- 20 VAT and financial VAT for November 2021
- 31 VAT return for November 2021

January 2022

- 15 WHT, including APIT deducted for December 2021
- 20 VAT and financial VAT payment for the month/Q.E 31 December 2021
- 31 VAT returns for the month/quarter ended 31 December 2021

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- 15 Payment of the third quarterly installment of income tax for Y/A 2021–22; WHT, including APIT deducted for January 2022
- 20 VAT and financial VAT for January 2022
- 29 VAT return for January 2022

March 2022

- 15 WHT, including APIT for February 2022
- 20 VAT and financial VAT for February 2022
- 31 VAT return for February 2022

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