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Sri Lanka Highlights

Currency: Sri Lankan Rupee (SRL)

Foreign exchange control: No, but capital account transactions are controlled.

Accounting principles/financial statements: Sri Lankan Auditing and Accounting Standards apply. Financial statements must be filed annually.

Principal business entities: These are the public and private limited liability company, partnership, sole proprietorship and branch of a foreign corporation.

Corporate taxation:

Residence – A company is resident in Sri Lanka if its principal office is in Sri Lanka or if it is managed and controlled there.

Basis – Residents are taxed on worldwide income; nonresidents are taxed only on Sri Lankan-source income. Foreign-source income derived by resident taxpayers is subject to corporate income tax in the same manner as Sri Lankan-source income. Branches are taxed in the same manner as domestic companies.

Taxable income – Taxable income is classified under various "heads": income from a trade, income from rentals, dividends, interest and royalties and other income.

Taxation of dividends – Dividends paid by a resident company (to a resident or nonresident company) are not included in the assessable income of the recipient if tax has been withheld from the payment by the payer or the dividends are paid out of dividend income received by the payer.

Capital gains – There is no capital gains tax in Sri Lanka.

Losses – Losses incurred in the operation of a trade or business may be carried forward indefinitely but only up to 35% of statutory income. The carryback of losses is not permitted.

Rate – Companies with taxable income less than SLR 5 million are taxed at 15% and venture capital companies at 20%. Quoted companies listed less than 5 years are taxed at 33 1/3% and companies listed more than 5 years are taxed at 35%.

Surtax – A Social Responsibility Levy is imposed on companies at 1.5% of the income tax liability.

Alternative minimum tax – No

Foreign tax credit – Tax paid in a foreign country that does not have a tax treaty with Sri Lanka may be deducted.

Participation exemption – No

Holding company regime – No

Incentives – Various tax holidays, investment incentives, exemptions and reliefs are available, and concessionary rates are granted to certain entities.

Withholding tax:

Dividends – Dividends paid to a resident or nonresident are subject to a 10% withholding tax unless the rate is reduced under an applicable tax treaty.

Interest – Interest paid to a nonresident is subject to a 15% withholding tax unless the rate is reduced under an applicable tax treaty. Interest paid to residents by banking and financial institutions is subject to a 10% withholding tax.

Royalties – Royalties paid to a nonresident are subject to a 15% withholding tax unless the rate is reduced under an applicable tax treaty.

Branch remittance tax – In addition to paying the standard corporate income tax, branches are subject to a 10% tax on remittances to a foreign head office.

Other taxes on corporations:

Capital duty – No

Payroll tax – The employer is required to deduct PAYE tax.

Real property tax – No

Social security – The employer contributes 12% and the employee 8% of remuneration to the Employees Provident Fund (EPF). The employer also contributes 3% of employee remuneration to the Employee Trust Fund. The employer pays a gratuity for any employee who has completed 5 years of service at a rate of 50% of the last drawn salary multiplied by the number of years of service at the time of retirement.

Stamp duty – Stamp duty is levied on the transfer of immovable property and on certain documents, with the rates set by the provincial governments. The issuance or transfer of company shares also is liable to stamp duty.

Transfer tax – A non-citizen who acquires immovable property in Sri Lanka must pay additional stamp duty of 100% of the value of the property. If the property is a condominium, transfer tax is applicable up to the third floor; units on the fourth floor and above are not liable to transfer tax.

Other – An Economic Service Charge (ESC) is imposed on any person carrying on a trade, business, profession or vocation. The ESC rate is 0.25% to 1% on total turnover or receipts if in excess of SRL 7.5 million or USD 75,000 per quarter. This may be set off against the income tax payable by that person and carried forward for 4 years, but no refund is available.

Anti-avoidance rules:

Transfer pricing – Profits and income arising, derived from or accruing from, or any loss incurred in transactions between 2 associated parties must be determined with regard to the arm's length price. The Inland Revenue Department has issued specific regulations with respect to documentation and methods for determining the arm's length price for transfer pricing purposes.

Thin capitalisation – Deductions for interest paid by a subsidiary on loans obtained from a holding company or another subsidiary, or vice versa, may be restricted.

Controlled foreign companies – No

Other – A GAAR applies when transactions do not reflect economic reality.

Disclosure requirements – No

Administration and compliance:

Tax year – Income tax is imposed based on an assessment year, which is a 12-month period from 1 April to 31 March.

Consolidated returns – Consolidated returns are not permitted; each company must file a separate return.

Filing requirements – Every resident and nonresident company is required to furnish a tax return before 30 September of the year following the year of assessment. Advance payments of tax are required on a quarterly basis.

Penalties – Penalties apply for failure to pay tax due in a timely manner or for failure to file a return.

Rulings – Rulings may be obtained on the interpretation of statutory provisions. However, there are no rules allowing APAs.

Personal taxation:

Basis – Residents are taxed on worldwide income; nonresidents are taxed only on Sri Lankan-source income.

Residence – An individual is deemed to be resident in Sri Lanka if he/she is physically present in Sri Lanka for a period of 183 days or more within 1 year of assessment (1 April of Year 1 to 31 March of Year 2). The concepts of domicile and citizenship are not applicable. If a person is deemed to be resident for 2 or more consecutive years, he/she is deemed to be a resident until absent from Sri Lanka for a continuous period of 12 months.

Filing status – Married couples are assessed separately.

Taxable income – Taxable income is classified under various "heads": income from a trade, income from employment, income from rentals, dividends, interest and royalties and other income.

Capital gains – There is no capital gains tax in Sri Lanka.

Deductions and allowances – Individuals are granted an allowance of SRL 300,000.

Rates – Progressive up to 35%.

Other taxes on individuals:

Capital duty – No

Stamp duty – Stamp duty is levied on the transfer of immovable property and certain documents, with the rates set by the provincial and central governments.

Capital acquisitions tax – No

Real property tax – No

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – The employer contributes 12% and the employee 8% of remuneration to the Employees Provident Fund (EPF). The employer also contributes 3% of employee remuneration to the Employee Trust Fund. Employees that have completed 5 years of service are entitled to a gratuity at the time of retirement at a rate of 50% of the last drawn salary multiplied by the number of years of service at the time of retirement.

Other – A debit tax is levied on funds in a current or savings account maintained in a commercial bank.

Administration and compliance:

Tax year – Income tax is imposed based on an assessment year, which is a 12-month period from 1 April to 31 March.

Filing and payment – The annual tax return must be furnished before 30 September of the following year of assessment. Taxes are payable on a quarterly basis under a self-assessment regime, as follows: the first quarter payment is due on or before 15 August of that year of assessment; the second payment by 15 November of that year of assessment; the third quarter payment by 15 February following that year of assessment; and the fourth quarter payment by 15 May following that year of assessment.

Penalties – Penalties apply for failure to pay tax due in a timely manner or for failure to file a return.

Value added tax:

Taxable transactions – VAT is levied on the supply of most goods and services, as well as the import of goods. Retail and wholesale businesses that supply goods are subject to a turnover tax of 1%.

Rates – The standard rate is 12%, with a reduced rate of 5% applying to essential items. Certain supplies are zero-rated or exempt. The rate on luxury goods is 20%.

Registration – Any person who supplies goods and services for value at SRL 650,000 or more per quarter or SRL 2,500,000 per annum is liable to VAT and must register with the Inland Revenue Department. Voluntary registration is permitted irrespective of the threshold until turnover exceeds SRL 3 million per annum and SRL 750,000 per quarter for a 3-year period, whichever occurs earlier.

Filing and payment – VAT returns generally must be filed every 3 months, although monthly filing is required in some circumstances.

Source of tax law: Inland Revenue Act, VAT law, Stamp Duty Act, Finance Levy Acts, Debit Tax Act, Nation Building Levy Act (as from 1 January 2009), Economic Service Charge Act

Tax treaties: Sri Lanka has concluded more than 35 tax treaties.

Tax authorities: Inland Revenue Department

International organisations: IMF, UN, Asia Pacific Trade Agreement, Asian Development Bank, South Asian Association of Regional Corporation

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