

Tax Reforms - 2014

Income Tax (Amendments to the Inland Revenue Act No 10 of 2006)

Exemptions/ Taxation at concessionary rates

Exemptions

Institutional Exemptions

Profits and income (other than income from dividends and interest) of the following institutions will be exempt from income tax :

- National Enterprise Development Authority established under the National Enterprise Development Authority Act No 17 of 2006;
- Sri Lanka Institute of Marketing incorporated under the Sri Lanka Institute of Marketing Act No 41 of 1980 ;
- The Institute of Physics Sri Lanka incorporated under the Institution of Physics Sri Lanka (Incorporation) Act No 12 of 1986.
(Section 7 of the Inland Revenue Act will be amended).

Source wise Exemptions

- Marginal relief to employees having other income not taxable at source as final tax :
- Profits and income not exceeding in the aggregate of Rs.48,000/- for any year of assessment, other than any employment income, or any profits or income which is taxable at source as final tax, of any employee who is not engaged in any trade, business, profession or vocation, if tax is deducted from his employment income for that year of assessment.
(Section 8 of the Inland Revenue Act will be amended).
- Profits and income arising or accruing to any company, partnership or body of persons outside Sri Lanka, from any payment made for the use of any computer software , by Sri Lankan Air lines Limited or Mihin Lanka (Pvt) Ltd, as a special requirement of such Airlines, if a Double Taxation Avoidance Agreement providing relief for double taxation of such profits is not in force between Sri Lanka and the other country or tax is not payable in that country on such profits or income.
(Section 13 of the Inland Revenue Act will be amended).
- Dividends distributed out of exempt dividends received by a company on investment made outside Sri Lanka as referred to in section 10(1)(j) of the Inland Revenue Act, if such distribution is made within one month of receipt of such dividends
(Section 10 of the Inland Revenue Act will be amended).

Concessionary rates

- The present concessionary rate of 12% applicable to profits and income from the supply of certain services to garment exporters will be extended to cover services provided to:

- Exporters of goods or services; or
- The foreign principal directly

being services which could be treated as essentially related to manufacture of such goods or provision of such services and the payments for such services are made by the exporter or the foreign principal to such supplier of services, in Sri Lanka, in foreign currency.

The present exemption applicable to profits and income earned in foreign currency for the provision of services to a person outside Sri Lanka (to be utilized outside Sri Lanka) referred to in section 13 (ddd) of the inland Revenue Act will remain as is it.

(Section 58 of the Inland Revenue Act will be amended).

- The applicability of section 51 and section 52 of the Inland Revenue Act providing for concessionary rate on qualified export profits will be extended.
(Sections 51 and 52 of the Inland Revenue Act will be amended).
- To maintain the uniformity of the application of concessionary rates applicable to various sectors, the current 10% rate for undertakings with annual turnover not exceeding five hundred million rupees will be revised to 12%.
(Section 59B and the Fifth Schedule, of the Inland Revenue Act will be amended).
- **Tax rates for professionals (providing professional services)**
To remove the applicability of deferent rates of taxes on the income from professions tax rate on such income will be reduced as follows:

Income from profession	Maximum rate of tax
Does not exceed Rs 25Mn	12%
Exceeds Rs 25Mn but does not exceed Rs 35 Mn	14%
Exceeds Rs 35 Mn	16%

- **Concessionary rate on employment income of professional as an employee**

The maximum rate of income tax applicable on employment income of professionals will be reduced to 16%.

For this purposes employee means a medical doctor, engineer, architect, lawyer, pilot, navigation officer, software engineer, accountant recognized as a member of a recognized professional body, and a researcher or senior academic recognized as an accredited professional.

- Considering the concessionary rates applicable to SME sectors and the other identified sectors (including companies), the lower rate of tax applicable to companies with taxable income not exceeding 5 million rupees will be removed.
(Second Schedule of the Inland Revenue Act will be amended).
- The period for listing of shares of a company with an issue of not less than 20% to the general public for the application of the half of the applicable rate as referred to in section 59D of the Inland Revenue Act, will be extended to a further period of three years, if such company is paying corporate income tax on the profits at 28% or more.
(Section 59D of the Inland Revenue Act will be amended).

Deduction from the remuneration from employment

- The limit of monthly receipts, by an individual employed in the public sector under more than one employer, for the application of 10% rate will be raised to 50,000.
- Where an individual is employed under more than one employer or serving in different places and receiving any benefit from the private use of a motor vehicle provided by the employer or any allowance from more than one employer or from more than one place, then the excess of aggregate of such benefits or allowance over fifty thousand rupees will form part of such employee's employment income liable to tax.
(Section 117A of the Inland Revenue Act will be amended).

Restriction on the applicability of tax holiday and qualifying payments

- The exemption under section 22 of the Inland Revenue Act will be restricted to investments made prior to 1.4. 2014.
- The deduction of the investment for expansion of an existing undertaking as qualifying payments referred to in paragraph (s) or paragraph (t) of subsection (2) of section 34 will be restricted to such investments made prior to April 1, 2014.
- In view of the applicability of lower tax rates to various sectors and accelerated depreciation allowances together with deductibility of expenses such as research & Development, opening up expenses etc., the prevailing minimum investment and the corresponding period of tax exemption will be further rationalized.
(Sections 16C, 16D and 17A will be amended.)

Revision of the definition of "executive officer" for tax purposes

The monthly emoluments for the purpose of definition of an "executive officer" will be revised from Rs 25,000/- to Rs 75,000/-.
(The definition of the "executive officer" in section 217 will be amended).

Value Added Tax (VAT) [Amendments to VAT Act No 14 of 2002]

Exemptions

- The present exemption available to telecom industry on the import or local purchase of any machinery or high tech equipment for telecom industry will be expanded to cover the import or local purchase of copper cables, subject to the same conditions specified in item (xx) of paragraph (a) of PART II of the First Schedule to the VAT Act, so far as such copper cables are used for the infrastructure development of the industry.

The exemption for importation will be available only if such cables are not available in Sri Lanka up to the required quality and the quantity.
- The present exemption applicable on the import of gully bowsers, semi- trailers for road tractors, any machinery or equipment used for garbage disposal activities carried out by any local authority, for the purposes of provision of such services to the public as approved by the Secretary to the relevant Ministry, will be expanded to cover the exemption on such

items, for purchasing of such items from local manufacturers as well, subject to the same conditions.

- Import or supply of following goods will be exempted from VAT :
 - Ties and bows under HS Code Nos 62.15.10, 62.15.20, 62.15.90
 - Designer pens under HS Code 96.08.30
 - Frozen Bait , Fish Hooks/rods/reels , Fishing tackle under HS Code 0511.91.90,9507.10, 9507.20,9507.30 and 9507.90
 - Marine Propulsion Engines under HS Code 8407.21, 8407.29.

Restrictions of Exemptions

- The application of the exemption from VAT on goods subjected to Special Commodity Levy (SCL) will be restricted to the VAT payable at the point of Customs only, in the case of any importer whose value of supplies in the local market out of goods imported exceeds Rs 250 Mn for any consecutive period of three months in a Calendar year.

Accordingly, the local supply of such goods referred to in item (xiii) of paragraph (b) of PART II of the First Schedule, will be subjected to VAT, if the total value of supply of the import of such goods for any consecutive period of three months of any calendar year exceeds Rs 250 MN.

- The exemption on the import or supply of such imported goods set out below will be removed:
 - Paddy, rice, wheat, cardamom, cinnamon, cloves, nutmeg, mace, pepper, desiccated coconuts, rubber, latex, fresh coconuts, tea including green leaf, rice flour, wheat flour, bread, eggs , liquid milk or powdered milk ;
 - Agricultural tractors or road tractors for semi-trailers under HS Code Nos 8701.10.10, 8701.10.90, 8701.20.10, 8701.90.10 8701.90.20 ;
 - Machinery and equipment for the tea and rubber industry under HS Code Nos 8438.80.40, 8429.10 ;
 - Machinery for modernization of factories by the factory owner;
 - Plant and machinery by an undertaking qualified for a tax holiday under section 24C of the Inland Revenue Act No 10 of 2006;
 - Pharmaceutical preparations falling under HS Code Nos 3003.90.11, 3003.90.12, 3003.90.13, 3003.90.15, 3003.90.19, 3004.90.11,3004.90.12, 3004.90.13, 3004.90.15, or 3004.90.19

VAT on wholesale and retail businesses

- The present threshold of quarterly value of supplies of any person or partnership carrying on a business of wholesale or retail trade for the chargeability to VAT , will be reduced from Rs 500Mn to Rs 250Mn .

Whether a subsidiary or associated company of a group of companies, engaged in a wholesale or retail sale has reached the liable threshold for any quarter will be determined based on the aggregate value of supplies of each company in the group ,engaged in such trade , for that quarter .

- The exemption applicable to the supply of goods specified in PART II of the First Schedule will be subjected to a maximum of 25% of the total supplies, in the case of a wholesale or retail business which supplies goods liable to VAT and goods exempted from VAT.

The input tax credit attributable on such liable supplies (if any), due to this adjustment will be allowed as referred to in section 22 .

(Section 3 ,section 8 and section 22 of the VAT Act will be amended)

Expanding the definition of international transportation

The present definition will be expanded to cover the services directly related to transportation of goods or passengers between international Air Ports situated within Sri Lanka.

The contribution to the VAT Refund Fund

The percentage of the contribution to the VAT Refund Fund by the Director General of Customs out of the VAT collected on the importation of goods into Sri Lanka will be reduced from 10% to 6% considering the reduction of refund claims due to the implementation of the SVAT Scheme.

(Section 71(2) of the VAT Act will be amended w.e.f 1/4/2013)

Nation Building Tax (NBT) [Amendments to NBT Act No 9 of 2009]

Exemptions

- Retail trade of goods at duty free shops for payment in foreign currency.
- Sale of locally manufactured coconut oil by the manufacturer, for a period of three years
- Distribution of LP Gas
- Services provided in any Airport for payments in foreign currency

Restriction of exemptions

- The application of the exemption from NBT on goods subjected to Special Commodity Levy will be restricted to NBT payable at the point of Customs only.

Accordingly, the local supply of such goods will be liable to NBT.

{Subsection (2) of Section 3 of the NBT Act will be amended}

- The exemption of financial services from NBT will be terminated in view of the withdrawal of the requirement of depositing funds in the Investment Fund Account.
- The exemption on the turnover on the sale of tractors will be restricted to locally manufactured tractors only. The importation of tractors falling under HS Code Nos 8701.10.10, 8701.10.90, 8701.20.10, 8701.90.10 8701.90.20 will be liable to NBT.
- Pharmaceutical preparations falling under HS Code Nos .Nos 3003.90.11, 3003.90.12, 3003.90.13, 3003.90.15, 3003.90.19, 3004.90.11, 3004. 90.12, 3004.90.13, 3004.90.15, or 3004.90.19 will be liable to NBT at the import point.

(PART I of the First Schedule to the NBT Act will be amended)

Telecommunication Levy [Amendments to Telecommunication Levy Act No 21 of 2011]

The present rate of 20% applicable on Telecommunication Levy will be revised to 25%. The concessionary rate of 10% applicable on the services provided through Internet /broad band, to facilitate IT and BPO sectors will remain unchanged.

Effective Dates of Proposals

Unless stated otherwise, the proposals in relation to :

- (i) Income Tax and Economic Service Charge will take effect commencing from April 1, 2014.
- (ii) Value Added Tax, Telecommunication Levy Act, and Nation Building Tax, will be implemented with effect from January 1, 2014.

Note: Complete note on tax reforms are included in technical note of the Budget Speech 2014.

<http://www.treasury.gov.lk/publications/budget-speeches.html>