

New Incentive Regime for Private Investors¹

A new tax incentive regime has been introduced with the budget 2012 to promote private investments, both domestic and foreign. These new incentives are applicable to following categories of investments.

- 1) **Small Enterprises** (Section 16C of the Inland Revenue Act)
- 2) **Medium Enterprises** (Section 16C of the Inland Revenue Act)
- 3) **Large Enterprises** (Section 17A of the Inland Revenue Act)
- 4) **Expansion of Existing Undertakings** (Activities specified in section 16C, Section 17A or Section 16D of the Inland Revenue Act)
- 5) **Strategic Import Replacement Enterprises** (Section 16 D of the Inland Revenue Act)
- 6) **Strategic Development Projects** (Under the Strategic Development Project Act No. 14 of 2008)

The details of the qualifying investment and the incentives granted for the enterprises under each category are highlighted below.

1. Small Scale – New Enterprises

New enterprises engaged in any of the following activities, provided that the investment is made on or before 31st March 2015 will be eligible to tax holidays as follows.

Category	Qualifying Criteria	Tax Incentive Period (Years)
1. Manufacturing (Other than any liquor or tobacco products) for domestic and/or export market	Minimum Investment Rs 50 Mn	4
2. (i) Agriculture and/or Agro processing, Animal Husbandry and/or processing, Fisheries and/or Fish processing (ii) Services : Creative work including work of a artist and information technology	Minimum Investment Rs 25 Mn	4

¹ Extracted from the Annual Report 2011 (pp. 423-426) of the Ministry of Finance and Planning.

2. Medium Scale - New Enterprises

New enterprises engaged in “specific activities” provided that the investment is made on or before 31st March 2015 will be eligible to tax holidays as follows.

Category	Qualifying Criteria	Tax Incentives
1. Manufacturing (Other than any liquor or tobacco products) 2. Agriculture : including animal husbandry or fishing 3. Services : Information technology , software development, business/Knowledge process outsourcing, Healthcare, education, beauty care, cold room and storage facilities, tourism, sports and fitness centers, creative work including art work and mini hydro power projects	Investment of Rs 50 mn and above	Up to 6 years

3. Large Scale – New Enterprises

Category	Qualifying Criteria (Minimum Investment) (Rs Mn)	Tax Incentive Period (Years)
1. Agriculture or Forestry Cultivation of food crops, industrial crops or horticulture, Forestry Animal Husbandry: Dairy, poultry, Swine, Goat etc.	300 – 500	6
	500 – 700	7
	700 – 1,000	8
	1,000 – 1,500	9
	1,500 – 2,500	10
	Above 2,500	12
2. Manufacturing 2.1 Manufacturing, Production or processing of non-traditional goods for exports, including deemed exports 2.2 Manufacturing for domestic and/or export market : Boats, Pharmaceuticals, Tyres and Tubes, Motor Spare Parts, Furniture, Ceramics, glass ware or other	300 – 500	6
	500 – 700	7
	700 – 1,000	8
	1,000 – 1,500	9
	1,500 – 2,500	10
	Above 2,500	12

mineral based products, rubber based products, Cosmetic products, edible products manufactured out of locally cultivated agricultural products, construction materials and electrical/electronic items		
3. Services	300 – 500	6
- Provided to a person or partnership outside Sri Lanka	500 – 700	7
- Tourism or Tourism Related Projects	700 – 1,000	8
- Providing Hotel Services, Guest Houses or Similar Services	1,000 – 1,500	9
- Infrastructure Projects including Construction of Commercial Buildings	1,500 – 2,500	10
- Development of any warehousing or storage facility	Above 2,500	12
- Power Generation using Renewable Resources		
- Establishment of Industrial Estates, Special Economic Zones or Knowledge Cities		
- Urban Housing or Town Centre Development		
- Provision of Any Sanitation Facility or Waste Management Systems		
- Development of Water Services		
- Development of internal water ways, and /or related transport (passenger/freight)		
- Construction of Hospitals and Provision of Health Care Services		
- Maintenance /repair of maritime vessels/ aircrafts		
- Sporting Services (e.g. Motor Racing or Golf Course)		
- Information Technology		
- Software development		
- Business/knowledge process outsourcing		
- Any Project in Light or Heavy Engineering Industry		
- Artificial insemination for cattle (Dairy development)		
- Higher Education/skills Development /adult education		
Processing & Solid Waste Management		

A 6 -12 year tax holiday period has been introduced to large scale projects engaged in “specific activities”.

4. Expansion of Existing Enterprises

Category	Qualifying Criteria (Investment Rs Mn)	Tax Incentives
Any Existing Enterprise (activities specified in section 16C or 17A)	Minimum Investment Rs 50Mn	The investment will be treated as a qualifying payment deductible from the assessable income of the enterprise subject to a maximum of 25% of the investment for each year of assessment falling within the period of 4 years commencing from the year of investment since 01.04.2011.

To encourage project expansions, special incentive scheme has been introduced for existing enterprises

5. Strategic Import Replacement Enterprises

To encourage import substitution, tax incentives have been granted for both new and existing enterprises (applicable for both BOI & Non-BOI enterprises) engaged in the following sectors. There will be no restriction on market access.

Sector	Minimum Investment (USD) Mn	Tax Incentive Period (Years)	
i. Fabric	5	<u>New</u>	<u>Existing</u>
ii. Pharmaceutical	10	5 years Tax holiday followed by a concessionary tax rate of 12%	Concessionary tax rate (12%) for 5 years coupled with, qualifying payment relief (Investment is considered as a qualifying payment deductible from the assessable income of the enterprise subject to a maximum of 25% of the investment for each year of assessment falling within the period of 4 years commencing from the year of investment).
iii. Milk Powder	30		
iv. Cement	50		

6. VAT, Customs Duty, and PAL – Exemptions on imports of capital goods (Section 17A, Strategic Import Replacement Enterprises & Project Expansions)

To reduce the upfront cost incurred on account of importation of project related plant, machinery and equipment, the applicable VAT, Customs Duty, and PAL will be deferred during the project implementation period, and such deferment will be treated as an exemption on the fulfillment of the conditions specified by the Board of Investment of Sri Lanka (BOI).

7. Strategic Development Projects

Any investment capable of altering the economic landscape of Sri Lanka would fall under Strategic Development Projects in which the tax exemptions are considered under the provisions of the Strategic Development Projects Act No. 14 of 2008 as amended by the Strategic Development Projects (Amendment) Act No. 12 of 2011.

Strategic Development Projects Act covers full or partial exemptions (depending on the type and the level of investment) of the following taxes.

- (i) Value Added Tax (VAT)
- (ii) Income Tax
- (iii) Economic Service Charge (ESC)
- (iv) Customs Duty
- (v) Excise Duty
- (vi) Nation Building Tax (NBT)
- (vii) Ports and Airports Development Levy (PAL)
- (viii) Taxes under the Finance Acts

- The facilitator is the Board of Investment Sri Lanka (BOI) with the concurrence of the Ministry of Finance and Planning.
- The project proposal should be submitted to the BOI directly by the investor.
- Investment proposal for government lands and property are scrutinized by Stranded Cabinet Appointed Review Committee on the recommendation of the line Ministry.
- BOI will carry out the necessary analysis of the project along with the line Ministry, with the concurrence of the Ministry of Finance and Planning.
- The Cabinet approval will be granted for the recognition of the project and for the approval of the Parliament.

A project is considered as a Strategic Project on exceptional grounds on its very special nature based on;

- Strategic importance to the public, substantial investment into a thrust sector
- Substantial inflow of foreign exchange, employment generation, transfer of technology
- The national interest, capable of changing the landscape of the country while bringing social and economic benefits to the economy.