

## Sri Lanka

### Sri Lanka Announces Tax Hikes to Boost Revenue

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Report from Mei-June Soo, Editor, IBFD

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In a press release on 31 May 2022, the government announced several tax reforms to be implemented over the immediate and near term to boost revenue in the midst of an economic crisis, increasing the value added tax (VAT) rate with immediate effect and the corporate and personal tax rates in the near future, while removing various incentives and reliefs.

The tax changes are set out below.

#### *Direct taxation*

##### (a) Corporate taxation

The following are proposed to be implemented from 1 October 2022:

- the corporate income tax rate will be increased from 24% to 30%; and
- the concessionary tax rate for income of specific businesses and activities will be increased from 14% to 15%.

The following are proposed to be implemented from 1 April 2023:

- dividends paid by resident companies to non-resident persons will be subject to income tax;
- the following tax holidays will be removed:
  - recycling of construction materials;
  - manufacturing of boats and ships;
  - installation of communications towers; and
  - letting of bonded warehouses or warehouses related to offshore business; and
- the additional deduction for marketing and communication expenses will be removed.

##### (b) Personal taxation

The following are proposed to be implemented from 1 October 2022:

- the personal tax relief will be reduced from LKR 3 million to LKR 1.8 million;
- the taxable income threshold will be reduced from LKR 3 million to LKR 1.2 million, and the marginal tax rates will be revised to 4%-32% (currently, 6%-18%);
- withholding tax on employment income will be mandatory;
- withholding tax on interest and dividends will be mandatory and considered as a final tax, and a relief on interest income of LKR 1.5 million will be reintroduced for senior citizens; and
- withholding tax will be imposed on service payments exceeding LKR 100,000 per month made to individuals.

From 1 April 2023, it is proposed that the 5-year tax exemption for businesses commenced by an individual after technical and vocational education and training will be removed.

#### *Indirect taxation*

##### (a) VAT

The following measures are proposed:

- the standard VAT rate will be increased from 8% to 12% (see Note);
- from 1 October 2022, the VAT registration threshold will be reduced from LKR 300 million to LKR 120 million per annum;
- from 1 October 2022, the exemption for sale of condominium units will be removed; and
- from 1 April 2023, the exemption schedule will be reviewed and unproductive exemptions will be removed based on economic benefit.

##### (b) Betting and gaming levy

The following are proposed to be implemented from 1 October 2022:

- the annual levy for gaming businesses will be increased from LKR 200 million to LKR 500 million;
- the annual levy for betting will be increased as follows:

- from LKR 4 million to LKR 5 million when carried out through agents;
- from LKR 0.6 million to LKR 1 million when carried out using live telecast facilities; and
- from LKR 50,000 to LKR 75,000 when carried out without the use of live telecast facilities; and
- the levy on gross collection will be increased from 10% to 15%.

(c) Other levies

With immediate effect, the telecommunication levy will be increased from 11.25% to 15%.

*Note:* The increase in the standard VAT rate takes effect from 1 June 2022, as per the [Extraordinary Gazette Notification No. 2282/26](#) dated 31 May 2022. The increased rate also applies to the supply of services by registered hotels, guest houses, restaurants or other similar businesses providing similar services (which were previously zero rated), but does not apply to the import of fabrics. The rate on supply of financial services will remain unchanged at 18%.

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**See also**

[3.3.](#), [1.6.1.](#), [1.7.](#), [6.3.1.](#), [8.2.](#), [8.5.](#), [8.6.](#), [9.6.5.](#), [9.6.6.](#)

[Sri Lanka - Individual Taxation - Country Surveys sections 1.4.](#), [1.7.2.](#), [1.9.1.](#), [1.9.2.](#)

[Sri Lanka - Country Analyses - Corporate Taxation sections 1.4.9.2.](#), [1.9.4.2.](#), [1.10.1.](#), [7.3.3.3.](#), [13.7.](#), [13.8.](#), [13.10.1.](#), [14.6.4.4.](#), [14.6.4.5.](#)

[Sri Lanka - Country Analyses - Individual Taxation sections 1.4.1.](#), [1.8.2.](#), [1.10.1.](#), [1.10.3.1.](#), [1.10.3.2.](#), [1.10.3.3.](#), [1.10.3.5.](#)