



I N T E R I M
BUDGET 2022



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Dear Valued Client,

INTERIM BUDGET HIGHLIGHTS 2022

BDO Partners take great pleasure in presenting our views on the interim budget proposals for the year 2022. In this publication, we provide a synopsis of the budget proposals made by Hon. Ranil Wickremesinghe, President and Finance Minister, in his interim budget speech presented in parliament today.

We believe that being proactive in analysing the tax exposure regarding the proposed changes is imperative and may have an impact on the way you do business and manage your affairs. If you need any further clarifications in relation to the proposed changes our team of tax professionals would be pleased to assist you.

At BDO nothing matters more to us than our clients. Our brand stands for exceptional client service, delivered by exceptional people.

Yours faithfully,

BDO Partners
CHARTERED ACCOUNTANTS

VALUE ADDED TAX

Increase in the VAT rate

The rate of VAT will be increased as follows with effect from the 01st of September 2022

Proposed	Prevailing
15%	12%

The budget states that most revenue proposals introduced in May 2022 will be effective from 01st October 2022 and the implementation of these proposals will help increase the revenue. According to the previous media releases, the proposals include changes to Income Tax, Value Added Tax (VAT) and Betting and Gaming Levy. We have summarized below the changes announced in May 2022 that might most likely be implemented from 01st October 2022.

Increase in the Registration Threshold

Proposed	Prevailing
LKR 120 Mn per annum	LKR 75 Mn per quarter or LKR 300 Mn per annum

Withdrawal of exemptions

- The exemptions on supply of condominium apartments is proposed to be withdrawn.
- The VAT exemption schedule will be reviewed and unproductive exemptions will be removed based on the economic benefits (effective 01st April 2023)

Our Comments

Clarity is required on what exemptions will be revoked



PERSONAL INCOME TAX

(Effective 01st October 2022 unless otherwise specified)

Taxpayer registration

It is proposed that tax files will be opened for all individuals above 18 years.

Reduction of Tax-free Allowance

Proposed	Prevailing
LKR 1.8 Million per year of assessment	LKR 3 Million per year of assessment

Our Comments

The reduction of the tax-free allowance would broad base the tax net. Accordingly, any individual with gross monthly earnings of LKR 150,000 or above would be liable to Income Tax.

Individual Progressive Tax Rate revisions

Proposed		Prevailing	
Taxable Income (LKR)	Rate	Taxable Income (LKR)	Rate
First 1.2 Million	4%	First 3 Million	6%
Next 1.2 Million	8%	Next 3 Million	12%
Next 1.2 Million	12%	Balance	18%
Next 1.2 Million	16%		
Next 1.2 Million	20%		
Next 1.2 Million	24%		
Next 1.2 Million	28%		
Balance	32%		



WITHHOLDING TAXES

(Effective 01st October 2022 unless otherwise specified)

Reintroduction of WHT on employment

Proposed	Prevailing
Employers would be required to deduct Advance Personal Income Tax (“APIT”) for any employees whose remuneration is in excess of the proposed personal relief of LKR 1.8 Mn per annum	APIT is currently mandatory only in the case of nonresident/ non-citizen employees. Payments to resident employees would attract APIT only if the employee has given the consent to deduct same.

Reintroduction of WHT on investment returns and other payments

Proposed	Prevailing
<p>Advance Income Tax (“AIT”)/ WHT to be made mandatory for all taxpayers and consider AIT on interest of individual taxpayers and dividends as final payments. Deduction of AIT will be at the following rates.</p> <ul style="list-style-type: none"> • Interest -5% • Dividend - 14% • Rent - 10% on rent exceeding LKR 100,000 per month • In all other cases - 14% 	<p>AIT is currently optional subject to exceptions. Individual Taxpayers are currently subject to tax on the investment returns on their respective progressive tax slabs (maximum of 18%).</p>

Our Comments

Re-introduction of qualifying payment on interest income of LKR 1.5 million for senior citizens. As in the past, banks may require declarations to ascertain eligibility to same.

No threshold is spelt out in the case of individuals, hence any individual who earns an interest or a dividend would be liable to tax and same would-be final withholding (i.e., no further taxation).



WITHHOLDING TAXES

(Effective 01st October 2022 unless otherwise specified)

Withholding Tax on Dividends paid to Non-residents

Proposed	Prevailing
Liable to WHT at 14% or the relevant DTA rate with effect from 01 st April 2023	Dividends paid by a resident company to any non-resident shareholder are exempt from income tax

Withholding Tax on service fees

Proposed	Prevailing
Exceeding LKR 100,000 per month made to individuals such as professionals at 5%	Service fees are currently taxed in the hands of the recipient individual

Our Comments

Clarity is required on the scope of “service fees”



CORPORATE INCOME TAX

(Effective 01st October 2022 unless otherwise specified)

Revisions to Tax Rates

Proposed		Prevailing	
Concessionary Tax Rate	15%	Concessionary Tax Rate	14%
Manufacturing	18%	Manufacturing	18%
Liquor, Tobacco, Betting and Gaming	40%	Liquor, Tobacco, Betting and Gaming	40%
Standard Rate	30%	Standard Rate	24%

Our Comments

Since the change is proposed to be effective from mid of the Y/A 2022/2023, guidance on the mechanism to compute the taxable income are required to be specified as in the case of Y/A 2019/2020

Removal of new investment exemptions

Proposed	Prevailing
Removing of certain income tax holidays granted under the Inland Revenue Amendment Act of 2021 except where projects or undertakings commenced prior to 31 st March 2023.	Industry wise/ time bound exemptions apply on the following: <ul style="list-style-type: none"> • Recycling of construction material - 10 years • Business commenced after TVET training - 5 years • Manufacturing of boats or ships in Sri Lanka and received or derived any gains and profits from the supply of such boats or ships - 7 years • Installation of communication towers -5 years • Letting bonded warehouses or warehouses related to offshore businesses



CORPORATE INCOME TAX

(Effective 01st October 2022 unless otherwise specified)

Temporary Concessions - Marketing and Communication expenses (MARCOM)

Proposed	Prevailing
Withdrawal of additional deduction on Marketing and Communication expenses (MARCOM) with effect from 01 st April 2023	Every person shall be entitled to an additional deduction of Marketing and communication expenses equal to 100% of the total expenses for three years of assessment commencing from April 1, 2021 subject to meeting the conditions specified in Gazette notification No. 2258/18

New Concessions - Manufacture of electric bicycles

Tax concessions are proposed for imported accessories/parts required in the manufacture of electric bicycles locally with more than 50 percent value addition.



BETTING AND GAMING LEVY

(Effective 01st October 2022 unless otherwise specified)

Annual Levy

Activity	Proposed (LKR)	Prevailing (LKR)
Annual levy for gaming business	500 Mn	200 Mn
Annual levy for gaming business through agents	5 Mn	4 Mn
Annual Levy for using the live telecast facilities	1 Mn	600,000
Annual levy for business carried on without the use of live telecast facilities	75,000	50,000

Rate of Levy on Gross Collection

Proposed	Prevailing
15%	10%



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- Tax Advisory
- Risk Advisory
- Corporate Service and Outsourcing
- Business/ Transaction Advisory
- Real Estate & Construction

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