

# Exemption on Information Technology and Enabled Services

**Income Tax and Value Added Tax**

# Foreword

*This concise document is intended to inform the implementation of the exemptions granted by the Inland Revenue (Amendment) Act, No. 10 of 2021 and the Value Added Tax (Amendment) Act, No. 9 of 2021 for the businesses of Information Technology and Enabled Services as prescribed by the Minister of Finance.*

*However, before making any decisions based on this document, please seek our professional advice.*

# Legal References

- **Income Tax exemption.**

As per Third Schedule to the Inland Revenue Act, No. 24 of 2017, as amended by the Inland Revenue (Amendment) Act, No. 10 of 2021, providing information technology and enabled services on or after January 1, 2020, as may be prescribed.

Gazette Notification 2234/06 dated June 29, 2021, was issued in terms of section 194 of the Inland Revenue Act, No. 24 of 2017 prescribing "information technology and enabled services" for the purposes of the Income Tax exemption.

- **Value Added Tax exemption.**

As per part II of the First Schedule to the Value Added Tax Act, No. 14 of 2002, as amended by the Value Added Tax (Amendment) Act, No. 9 of 2021, commencing on or after January 01, 2020 information technology and enabled services as shall be prescribed.

Gazette Notification 2234/07 dated June 29, 2021, was issued in terms of section 75 of the Value Added Tax Act, No. 14 of 2002 prescribing "information technology and enabled services" for the purposes of Value Added Tax exemption.

# Information Technology and Enabled Services that are prescribed.

Information Technology and Enabled Services	Income Tax	Value Added Tax
1. Software development services in Sri Lanka by any person	Exempted w.e.f. January 1, 2020	Locally developed software is already exempted.
2. Adaptation, upgrading, enhancement, implementation and similar services, related to any type of software developed in Sri Lanka	Exempted w.e.f. January 1, 2020	Exempted w.e.f. April 1, 2021
3. Following services provided by any local institution to any person; <ul style="list-style-type: none"> <li>a) Services of computer programming</li> <li>b) Deployment of business Information Technology applications</li> </ul>	Exempted w.e.f. January 1, 2020	Exempted w.e.f. April 1, 2021

# Information Technology and Enabled Services that are prescribed (Continued..)

Information Technology and Enabled Services	Income Tax	Value Added Tax
c) System integration	Exempted w.e.f. January 1, 2020	Not Prescribed
d) Services to develop web e) Services to develop online platforms f) Network integration g) Data processing for data mining and data administration services h) Local cloud services i) Artificial intelligence j) Internet of things k) Cyber security	Exempted w.e.f. January 1, 2020	Exempted w.e.f. April 1, 2021

# Information Technology and Enabled Services that are prescribed (Continued..)

Information Technology and Enabled Services	Income Tax	Value Added Tax
<p>4. Provision of following back-office services by any local institution or a person in Sri Lanka to any person, electronically or by using computer system or mobile electronic devices;</p> <ul style="list-style-type: none"> <li>a) Remote Information Technology maintenance</li> <li>b) Data search and analysis</li> <li>c) Clinical database management services excluding clinical trails</li> <li>d) Information Technology services outsourcing</li> </ul>	<p>Exempted w.e.f. January 1, 2020</p>	<p>Exempted w.e.f. April 1, 2021</p>

# Information Technology and Enabled Services that are prescribed (Continued..)

Information Technology and Enabled Services	Income Tax	Value Added Tax
<p>5. Knowledge process outsourcing services provided mainly with the assistance or use of Information Technology requiring application of knowledge and advanced analytical and technical skills in relation to;</p> <ul style="list-style-type: none"> <li>a) Geographic information system</li> <li>b) Engineering and design services</li> <li>c) Animation or content development and management</li> </ul>	<p>Exempted w.e.f. January 1, 2020</p>	<p>Exempted w.e.f. April 1, 2021</p>

# Conditions on the exemption

Condition	Income Tax	Value Added Tax										
Number of the local technical employees related to information technology should not be less than 70% of the total number of employees deployed in software development and providing services referred in item 2 of the prescribed services.	Applicable on software development and providing services referred in item 2 of the prescribed services, w.e.f April 1, 2020	Applicable only on providing services referred in item 2 of the above prescribed services W.e.f April 1, 2021. Not applicable on software development.										
In the case of other services as referred in item 3, 4 & 5, minimum “local value addition” should be not less than 50% of the gross income of such services	Applicable w.e.f April 1, 2020	Applicable w.e.f April 1, 2021										
<p><b><u>“local value addition”</u></b></p> <table border="0" style="width: 100%;"> <tr> <td style="width: 80%;">Gross income</td> <td style="text-align: right;">xxxxxx</td> </tr> <tr> <td>Less: Cost of any goods imported by such person</td> <td style="text-align: right;">(xx)</td> </tr> <tr> <td>Less: Cost of local purchased but imported goods used by such person</td> <td style="text-align: right;">(xx)</td> </tr> <tr> <td>Less: Cost of service for which the payment are made to a person outside SL</td> <td style="text-align: right;"><u>(xx)</u></td> </tr> <tr> <td>Local Value Addition</td> <td style="text-align: right;"><u>xxxx</u></td> </tr> </table>			Gross income	xxxxxx	Less: Cost of any goods imported by such person	(xx)	Less: Cost of local purchased but imported goods used by such person	(xx)	Less: Cost of service for which the payment are made to a person outside SL	<u>(xx)</u>	Local Value Addition	<u>xxxx</u>
Gross income	xxxxxx											
Less: Cost of any goods imported by such person	(xx)											
Less: Cost of local purchased but imported goods used by such person	(xx)											
Less: Cost of service for which the payment are made to a person outside SL	<u>(xx)</u>											
Local Value Addition	<u>xxxx</u>											
Any business set up or formed by splitting-up an existing business as at the effective date of this notification shall not be qualified.	Applicable w.e.f June 29, 2021	Applicable w.e.f April 1, 2021										





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