

PROPOSED TAX REFORMS 2022

The government has proposed certain tax proposals as a measure to face the ongoing economic crisis in the country. This document provides a summary of proposed tax reforms to be implemented over the immediate and near term.

Income Tax

Personal Income Tax

- Reduction of the personal relief from Rs. 3 million to Rs. 1.8 million effective from October 1, 2022.
- Revision of Personal Income Tax Rates effective from October 1, 2022.

Taxable Income	Rate
First 1.2 million	4%
Next 1.2 million	8%
Next 1.2 million	12%
Next 1.2 million	16%
Next 1.2 million	20%
Next 1.2 million	24%
Next 1.2 million	28%
On the balance	32%

Corporate Income Tax

- Tax Rate changes w.e.f. October 1, 2022.
 - The standard Corporate Income Tax rate will be increased to 30% from 24%.
 - The concessionary Corporate Income Tax rate will be increased to 15% from 14%.
- Making dividends paid by a resident company to non-resident person liable to income tax effective from April 1, 2023.
- Removal of additional deduction granted for expenses related to Marketing and Communication effective from April 1, 2023.
- Revisiting the definition given for "multi-national companies" under the Inland Revenue Act, No. 24 of 2017 effective from April 1, 2023 to improve the clarify of the definition.

- Removing the following income tax holidays granted under the previous amendment. This will not apply to projects or undertakings commenced prior to March 31, 2023.
 - Ten-year tax exemption period for an undertaking that sells construction materials recycled in a selected separate site established in Sri Lanka to recycle the materials which were already used in the construction industry.
 - Five-year tax exemption period for any business commenced on or after April 1, 2021 by an individual after successful completion of vocational education from any institution which is standardized under TVET concept and regulated by the Tertiary and Vocational Education Commission.
 - Seven-year tax exemption period for an undertaking commenced by a resident person in manufacturing of boats or ships in Sri Lanka and received or derived any gains and profits from the supply of such boats or ships.
 - Five-year tax exemption period for any undertaking commenced on or after January 1, 2021 by any resident person who constructs and installs the communication towers and related appliances using local labour and local raw materials in Sri Lanka or provides required technical services for such construction or installation.
 - Any undertaking for letting bonded warehouses or warehouses related to the offshore business, in Colombo and Hambantota ports, if such person has invested in such warehouses effective from April 1, 2021.

Withholding Tax

- Making APIT/ Withholding Tax on Employment Income (PAYE) mandatory for all taxpayers exceeding the personal relief of Rs. 1.8 million per year of assessment effective from October 1, 2022.
- Making AIT/ Withholding Tax mandatory for all taxpayers and consider AIT on interest of individual taxpayers and dividends as final payments effective from October 1, 2022. Deduction of AIT will be at the following rates.
 - a. Interest -5 percent
 - b. Dividend – 14 percent
 - c. Rent – 10 percent on rent exceeding Rs. 100,000 per month
 - d. In all other cases – 14 percent
- Imposing Withholding Tax on service payments exceeding Rs. 100,000 per month made to individuals such as professionals at the rate of 5 percent effective from October 1, 2022.
- Re-introduction of relief on interest income of Rs. 1.5 million for senior citizens effective from October 1, 2022.

Value Added Tax

- Increasing VAT rate from 8% to 12% with immediate effect.
- Decreasing VAT threshold from Rs. 300 million per annum to Rs. 120 million per annum effective from October 1, 2022.
- Reviewing VAT exemption schedule and removal of unproductive exemptions based on the economic benefits.
- Removal of the VAT exemption on Condominium Residential Apartments effective from October 1, 2022.
- Removal of zero percent VAT rate granted on the supply of services by a hotel, guest house, restaurant or other similar businesses providing similar services, registered with the Sri Lanka Tourism Development Authority, if sixty per centum of the total value of the inputs are sourced from local supplies/sources and imposition of 12% tax rate on the same effective from October 1, 2022.

Telecommunication Levy

Increase the Telecommunication Levy from 11.25% to 15% with immediate effect.

Betting and Gaming Levy

- Increase Annual Levy for carrying on the business of gaming from Rs. 200 Mn to Rs. 500 Mn w.e.f. January 1, 2023.
- Increase Annual Levy for betting w.e.f. January 1, 2023
 - a. From Rs. 4 Mn to Rs. 5 Mn when it is carried on through agents
 - b. From Rs. 0.6 Mn to Rs. 1 Mn when it is carried on using live telecast facilities
 - c. From Rs. 50,000 to Rs. 75,000 when it is carried on without the use of live telecast facilities
- Increasing the rate of the levy on Gross Collection from 10% to 15% w.e.f. January 1, 2023.

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