

Budget Highlights

2023



November 14, 2022

Dear Valued Client,

BUDGET HIGHLIGHTS 2023

Dasanayaka Associates takes great pleasure in presenting a summary of the Budget Proposals – 2023. In these highlights, we provide a synopsis of the budget proposals presented by Honorable Ranil Wickremesinghe, in the capacity of Minister of Finance in the parliament today.

This document provides a generalized summary of the budget proposals. Therefore, before making any decisions based on this document, please seek the necessary professional advice.

Yours faithfully,

Dasanayaka Associates

Chartered accountants

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Income Tax

Exemption

Income earned by non-resident persons from engaging in Government projects approved by the Minister of Finance taking into consideration the economic benefit to the country, where such project is totally funded from foreign grants.

Administrative Reviews

- The time period for the Commissioner General to notify the decision and the reasons for the decision in respect of a request made on or after April 01, 2023 by a taxpayer for an Administrative Review, will be within two years from the date of receipt of such request.
- Where the decision of the Commissioner General is not notified within two years period, the request will deem to have been allowed.

APIT/PAYE liability of employees of SOEs

It is proposed to stop SOEs from paying the PAYE / APIT liabilities of their employees.

Income Tax (Cont..)

Income tax liability on dividends received during the period from October 1, 2022 to the effective date of the Inland Revenue (Amendment) Act, 2022.

- exempt dividend received or derived by non-residents during that period.
- apply income tax rate of 15% for dividend received or derived by residents during that period.
- exemption will be applicable on any dividend paid by a resident company to a member to the extent that such dividend payment is attributable to, or derived from, another dividend received by that resident company or another resident company.

Value Added Tax

Exemption

Considering the revenue forgone due to the Value Added Tax (VAT) exemptions granted to various sectors, the exemptions specified in the First Schedule to the VAT Act will be rationalized with effective from April 1, 2023.

New VAT Act

A new Value Added Tax Act will be introduced consolidating the amendments introduced from the year 2002 to the year 2022.



Social Security Contribution Levy

Exemption

- Importation of any motor vehicle identified under Harmonized Commodity Description and Coding Numbers for Custom purposes and liable to Excise Duty under the Excise (Special Provisions) Act, No. 13 of 1989, will be exempted from Social Security Contribution Levy (SSCL), with effect from 01.01.2023.
- Equipment used by differently abled persons and the pharmaceutical product categorized under HS code 2844.40, will be exempted from SSCL.
- Solar panels used to produce solar energy under the combined classification code 8541.10 and inverters under the combined classification code 8504.40, will be exempted from SSCL.
- SSCL will be waived for organizations that assemble motor vehicles and add at least 25% local value and produce the required parts locally.
- Commercial hub enterprises will be exempted from SSCL.



Finance Act

Broadening of exemptions under Commercial Hub provisions

Enterprises that are eligible for the exemptions under the commercial hub activities under the Finance Act will be extended to bunkering services.

Registration of unregistered motor vehicles

Vehicles which were assembled in /imported in to Sri Lanka and remain unregistered as at November 12, 2021, from the application of Section 2A (1) (a) of the Motor Traffic Act, (Chapter 203) to allow such vehicles to be registered under the said Act, if such vehicle, in the opinion of the Commissioner General of Motor Traffic is roadworthy.

Release of vehicles seized at the Sri Lanka Customs

Following vehicles seized at the Sri Lanka Customs owing to non-payment of applicable taxes and other reasons, will be released from the Sri Lanka Customs, subject to the payment of applicable taxes and fines.

- a) Any vehicle imported in to Sri Lanka on or after May 22, 2020 but prior to November 12, 2021 and not removed from the Sri Lanka Customs due to restrictions and prohibitions set out in the Regulations made under the provisions of the Import and Export (Control) Act, No.1 of 1969, or
- b) Any vehicle propelled electrically, imported prior to November 12, 2021 and not removed from the Sri Lanka Customs due to non-payment of applicable taxes.

Surcharge Tax

A Surcharge tax will be charged at the point of importation, on diesel, petrol and crude oil.





Strategic Development Projects

Any business or project intends to engage in the commercial hub activities will be eligible for exemptions granted under the Strategic Development project Act, No.14 of 2008, if identified as Strategic Development Project.

Betting And Gaming Levy

- The definition of “bookmaker” in Betting and Gaming Levy Act will be extended to include a person receives or negotiates bets on all type of sports event, including online betting.
- A licensing mechanism for the business of bookmaker will be introduced, for a fee. Betting and Gaming Levy Act will be amended to permit the licensed bookmakers to register with Inland Revenue Department.
- Engaging in the business of bookmaker without been licensed and registered by any person will be prohibited by making it a punishable offence.



Casino Business (Regulation) Act

- Amendments will be introduced to extend the definition of gaming/ casino to include the online gaming/casino.
- The regulatory and licensing requirements will be applicable for online casinos operate in Sri Lanka. Any online casino operating without a license will be made illegal.

Import Taxes

- Unit rate (Fixed Rate) of the Customs Import Duty and CESS Levy will be adjusted absorb in line with the Rupee depreciation and for avoidance of under-invoicing and under-valuation at the point of Customs clearance. Accordingly, Customs Import Duty on a total of 378 selected HS Codes will be adjusted under the Export Development Board Act, No.40 of 1979, effective from November 15, 2022.
- The HS Code 2022 version will be implemented effective from January 1, 2023.
- The existing three band tariff system of 0%, 10% and 15% will be revised as a three-band tariff of 0%, 15% and 20%.

CESS

- CESS levy will be eliminated on phased basis in three years commencing January 01, 2023, keeping in line with the phasing out of para-tariffs / levies.
- The proposed tax policy will be implemented in such a way that it does not interfere with CESS levy on agriculture-based value-added industries.





Port and Airport Development Levy

- It was proposed to remove Port and Airport Development Levy effective 01.01.2023 imposed on solar panels used to produce solar energy under the combined classification code 8541.10 and inverters under the combined classification code 8504.40.
- It was suggested to Phase out Ports and Airports Development Levy completely in five years, keeping in line with the phasing out of para-tariffs / levies effective from January 01, 2023.

Other Taxes

Tax on Beedi sticks

It was proposed to impose a tax of Rs. 2 Per Beedi stick. In addition, other fees payable for obtaining of certificates and licenses will be increased.





Fees and Charges

- Fees and charges which have not been revised for three years from 2020 to 2022 will be increased by 20%.
- In the same vein, it is proposed to increase fees levied by the Department of Immigration and Emigration on Passport, Visa and other charges.

Tax Appeals Commission Act

Revision of fees

- The fee levied to state a case on a question of law for the opinion of the Court of Appeal will be increased to Rs.10,000/-.
- The fee levied to make an appeal to the Tax Appeals Commission (TAC) will be increased to Rs.15,000/-

Validity of Bank Guarantee

- Provisions will be incorporated to make the bank guarantee provided by an appellant under Section 7 of the TAC Act, valid until the appeal is determined, irrespective of laps of 270 days provided under Section 10 of TAC Act.
- Provisions will be incorporated to make it mandatory to transfer the bank guarantee to the Commissioner General of Inland Revenue irrespective of the appellant's decision to appeal to the Court of Appeal.

Measures to Improve Tax Administration

E-tax filing system

The government has already introduced a mandatory electronic tax filing system for corporate sector. This will be expanded to non-corporate taxpayers, including employees to improve efficiency and increase compliance level.

Tax Audit

A tax audit and verification programme will be implemented. Accordingly, all revenue collecting agencies should conduct a risk-based audit to identify the taxpayer's inherent risks for the purpose of encouraging compliance.

Digitalization of Tax System

The efforts to digitalize the tax system will continue. Steps will be taken to review and address deficiencies in the RAMIS system at the Inland Revenue Department. Further, the IT based platforms of the three key revenue collection agencies will be linked, allowing them to share information to ensure tax compliance across agencies.

Information Collection

A mechanism will be developed to collect information from other relevant institutions and manage them in prudent manner.

Tax Ombudsman

A Tax Ombudsman will be appointed to address the concerns of taxpayers.

Measures to Improve Tax Administration (Cont..)

A Taxpayer Charter	A charter, covering rights and obligations of taxpayers, will be introduced.
Publication of VAT registered persons	A list of active VAT registered persons will be published in the Inland Revenue website.
KPIs for Revenue Collecting Agencies	The Ministry of Finance typically sets revenue targets for the key revenue agencies and tracks the achievement of these targets on a regular basis. In addition, their performance will be monitored by introducing several Key Performance Indicators (KPIs) to revenue collecting agencies, i.e. Inland Revenue Department, Sri Lanka Customs and Excise Department, to measure their efforts.
Tax collection efficiency	Introduction of legislative amendments to improve the efficiency of tax collection at the Departments of Excise and Customs is also in progress.
Taxpayer awareness	Insufficient tax audits, probability of detection, weaknesses in enforcement actions, attitude of the government spending etc. are observed to be affecting taxpayer's attitudes and compliance decisions. Considering these facts, a Dedicated Awareness Unit will be established at the IRD to make relevant public and taxpayer awareness with a more focused and consistent approach.

Measures to Improve Tax Administration (Cont..)

Cash economy

The government has identified the cash economy as one of the tools that is used to evade taxes. Therefore, measures will be taken to discourage cash transactions and encourage bank/card transactions, with specific limits.

Broadening the Tax Base

While encouraging the voluntary compliance, necessary legal provisions will be introduced to strengthen the tax enforcement mechanism, including enhanced audit and verification program, in order to ensure all potential taxpayers are registered within tax system and pay the due tax.

Measures for Tax Administration

It was proposed to establish a Presidential Commission on Taxation to study and make recommendations on the functioning, coordination and changes to be made in the tax structure, the institutions, procedures etc. This Commission will also examine the requirement for setting up of centralized institution for managing government revenue.

Opening tax files for persons above 18 years

Whilst the requirement of having everyone over 18 opening a tax file is a first step, many of those who open files will be below the tax-free thresholds. Therefore, it is important to introduce measures that identify high income earners specifically and get them into the tax net.

Talk to us

Mr. Prasad Dasanayaka (ACA,ACMA)
Partner & Head of Tax & Regulatory

Mr. Dinuka Perera (ACA, Bsc (Finance) sp.)
Partner – Audit and Assurance & Head of DA international

Ms. Kaushalya Perera (ACA)
Senior Director



No. 16, Shady Grove Avenue,
36th Lane, Colombo 08, Sri Lanka.

Tel: +94112699916

E-mail: info@dasanayakaassociates.com

Web: www.dasanayakaassociates.com