

# INTERIM BUDGET 2022 COMBINED WITH RECENTLY PROPOSED TAX REFORMS - 2022



**TAX TALK**  
YOUR PARTNER IN TAX

# INTERIM

# BUDGET

# 2022



**ATHULA RANAWEERA (BSc., FCA, FCMA, FMAAT)**  
email – [athula@assentadvisory.lk](mailto:athula@assentadvisory.lk), [athula@ranaweeraasso.lk](mailto:athula@ranaweeraasso.lk)

Phone – +94 777 305 123

**30<sup>th</sup> August 2022**

# INTERIM BUDGET 2022 & PROPOSED TAX REFORMS

## 1. Introduction

➤ The Minister of Finance presented the Interim Budget 2022 on 30<sup>th</sup> August 2022 to cover the balance 4 months of the year 2022 highlighting following 04 aspects;

(i) Country's Current Economic Crisis

(ii) Causes of the Economic Crisis

- *Short-sighted economic practices,*
- *Business Nationalization policy,*
- *Poor policies on FDIs.*



(iii) Solutions to the Economic Crisis

- *Change our mindset and accept & follow the current trends of the modern world. (i.e. Deviate the Government involving in business)*

(iv) Methods of Solving the Crisis

- *Short term recovery actions (Eg: Support of the IMF)*
- *Long term National Economic Policies (Say planning for next 25 years)*

# INTERIM BUDGET 2022 & PROPOSED TAX REFORMS

## 1. Introduction (Contd..)

### ➤ The Economic Crisis

- Lot of tax reliefs given in 2019, resulting Tax Loss of around Rs. 600 bn – Rs. 800 bn. per annum.

	2019	2020	2021	2022 Beginning
The Tax revenue to GDP	12.7%	9.1%	8.7%	8.2%
Budget Deficit	9.6%	11.1%	11.6%	??%
Government debts to GDP	86.9%	100.6%	104.6%	110%

- Fiscal imbalance
- Foreign currency shortage
- Poor credit rating

### ➤ Needs for a Recovery;

- Strong fiscal consolidation plan (revenue enhancement, expenditure rationalization measures, tax administration)
- Macroeconomic stability



Gov. Target  
Revenue by 2025  
= 15% of GDP

# INTERIM BUDGET 2022 & PROPOSED TAX REFORMS

## 2. Tax Proposals

- **Income Tax**
  - Personal Income Tax (PIT)**
  - Withholding Tax (WHT)**
  - Corporate Income Tax (CIT)**
- **Value Added Tax (VAT)**
- **Social Security Contribution Levy (SSCL)**
- **Telecommunication Levy**
- **Betting and Gaming Levy**
- **Strengthening the Revenue Administration System**
- **Other Proposals**
- **Conclusion**



**Slide 5**

**Slide 6 & 7**

**Slide 8 – 10**

**Slide 11**

**Slide 12**

**Slide 13**

**Slide 14**

**Slide 15 & 16**

**Slide 17 - 19**

**Slide 20 & 21**

# INTERIM BUDGET 2022 & PROPOSED TAX REFORMS

## 2. Tax Proposals (*Contd...*) – Income Tax

### 1.1 Personal Income Tax (PIT) (Revisions w.e.f. 01<sup>st</sup> October 2022)

- **Compulsory registration for IT of every resident reaching 18 years of age.**
- **Reduction of the annual personal relief from Rs. 3 million to Rs. 1.8 million.**
- **Proposed Personal Income Tax Rates;**

Taxable Income (Rs.)	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

Qualifying Payments  
& Reliefs will  
continue.





# INTERIM BUDGET 2022 & PROPOSED TAX REFORMS

## 2. Tax Proposals (Contd...) – Income Tax

### 1.2 Withholding Tax (WHT) (w.e.f. 01<sup>st</sup> October 2022)

#### 1.2.1 Withholding Tax on Employment Income (APIT/PAYE) (w.e.f. 01<sup>st</sup> October 2022)

- **Mandatory** on all employees receiving in excess of personal relief of Rs. 1.8Mn. per Y/A.

#### 1.2.2 Withholding Tax (AIT) on Investment Income (w.e.f. 01<sup>st</sup> October 2022)

- **AIT - Mandatory** for all taxpayers

Source	Rates
Interest	5%
Dividend	14%
Rent (exceeding Rs. 100,000 per month)	10%
In all other cases	14%



- **AIT on dividends and on individuals' interest income are final withholding taxes.**

# INTERIM BUDGET 2022 & PROPOSED TAX REFORMS

## 2. Tax Proposals (*Contd...*) – Income Tax

### 1.2 Withholding Tax (WHT)

#### 1.2.3 Withholding Tax on Service Payments (w.e.f. 01<sup>st</sup> October 2022)

- Introduction on WHT (AIT) on service payments exceeding Rs. 100,000 p.m. made to individuals (such as professionals) - @ 5%

#### 1.2.4 Relief on Interest income for Senior Citizens (w.e.f. 01<sup>st</sup> October 2022)

- Re-introduction of relief of **Rs. 1.5 million p.a.** on interest income of senior citizens.

**WITHHOLDING TAX**

# INTERIM BUDGET 2022 & PROPOSED TAX REFORMS

## 2. Tax Proposals (*Contd...*) – Income Tax

### 1.3 Corporate Income Tax (CIT)

- Increasing the **standard CIT rate** from 24% to **30% (w.e.f. 01<sup>st</sup> October 2022)**
- Increasing the **concessionary CIT rate** from 14% to **15% (w.e.f. 01<sup>st</sup> October 2022)**
- The **18%** rate on **manufacturing & 40%** on **liquor, tobacco, betting and gaming** continue.
- **Dividends** paid by a resident company to a non-resident person made liable to income tax (**w.e.f. April 1, 2023**). (*i.e. 14% WHT at source*)





# INTERIM BUDGET 2022 & PROPOSED TAX REFORMS

## 2. Tax Proposals (*Contd...*) – Income Tax

### 1.3 Corporate Income Tax (CIT)

- The following IT holidays under 3<sup>rd</sup> Schedule to the Act be removed. (*Effective date ?*)
- Tax holiday continues on projects/undertakings commenced prior to 31<sup>st</sup> March 2023.
  - i. 10 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.
  - ii. 5 year tax exemption period for any business commenced on or after 1<sup>st</sup> April 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.
  - iii. 7 year tax exemption period for an undertaking commenced by a resident person in **manufacturing of boats or ships** in SL.
  - iv. Unlimited tax exemption on any undertaking for **letting bonded warehouses/warehouses related to the offshore** business, in Colombo and Hambantota ports.

# INTERIM BUDGET 2022 & PROPOSED TAX REFORMS

## 2. Tax Proposals (*Contd...*) – Income Tax

### 1.3 Corporate Income Tax (CIT)

- ***Removal of income tax holidays (Contd...)***
  - v. 5 years tax exemption period for any undertaking commenced on or after 1<sup>st</sup> January 2021 by any resident person who **constructs and installs the communication towers and related appliances** or provides required **technical services** for such construction or installation.
- **Additional deduction** granted for expenses related to **marketing & communication** be removed w.e.f. 1<sup>st</sup> April 2023.
- **Revisiting the definition** given for “multi-national companies” under the Inland Revenue Act, to improve the clarify.
- Making **any other** consequential amendments due to the above proposals.

# INTERIM BUDGET 2022 & PROPOSED TAX REFORMS

## 2. Tax Proposals (*Contd...*) - VAT

### Proposals made on Value Added Tax

- Increase in VAT rate:- w.e.f. 01<sup>st</sup> June 2022 - 8% to 12% (*Legalized*)  
w.e.f. 01<sup>st</sup> Sept. 2022 - 12% to 15% (*To be Legalized*)
- VAT threshold decreasing from Rs. 300Mn p.a. to Rs. 120Mn p.a. (w.e.f. 1<sup>st</sup> October 2022).
- Reviewing VAT exemption schedule and **removal of unproductive exemptions.**
- Removal of the VAT exemption on **Condominium Residential Apartments** (w.e.f. 1<sup>st</sup> October 2022).
- Removal of 0% VAT rate & replacing with 12% on the supply of services by a (Tourism Development Authority registered) hotel, guest house, restaurant or other similar businesses providing similar services (w.e.f. 1<sup>st</sup> October 2022). [Now 0% VAT is available if 60% of the total value of the inputs are sourced locally].
- Making **any other** consequential amendments due to the above proposals.

# INTERIM BUDGET 2022 & PROPOSED TAX REFORMS

## 2. Tax Proposals (*Contd...*) - SSCL

- Social Security Contribution Levy (SSCL) bill is out, but not yet passed in the Parliament.
- 2.5% Social Security Contribution Levy (SSCL) be paid monthly on following;
  - (a) Importing - On 100% of the turnover (*Pay at the time of import clearance*)
  - (b) Manufacturing - On 85% of the turnover
  - (c) Providing a service of any description – On 100% of the Financial Services Value Addition
  - (d) Wholesale or retail sale of any article including importation and sale –
    - Distributor (Locally manufactured goods) - On 25% of the turnover
    - Wholesale/Retail Trading (Imported /Local) - On 50% of the turnover
- Effective date to be announced (To be legalized)
- Thresholds on taxable person;
  - aggregate of the turnover  $\geq$  Rs. 120 Mn (for the year 01.07.2021 – 30.06.2022)
  - aggregate of the turnover  $\geq$  Rs. 30 Mn (for a quarter commence on or after 01.07.2022\*, if exceeds or is likely to exceed) \* **Need to change the date**

# INTERIM BUDGET 2022 & PROPOSED TAX REFORMS

## 2. Tax Proposals (*Contd...*) - Telecommunication Levy

### Telecommunication Levy

- Telecommunication Levy increased from 11.25% to 15% (w.e.f. 01<sup>st</sup> June 2022).

#### History:

- The rate was reduced from 15% to 11.25% effective from 1<sup>st</sup> December 2019.
- Accordingly, revenue decreased by 28%.
  - In 2019 Rs. 18.3 bn.
  - In 2020 Rs. 13.1 bn.



# INTERIM BUDGET 2022 & PROPOSED TAX REFORMS

## 2. Tax Proposals (*Contd...*) - Betting and Gaming Levy

**Amendments proposed regarding Betting and Gaming Levy (w.e.f. 1<sup>st</sup> January 2023).**

- i. Increasing Annual Levy on the business of gaming from Rs. 200 Mn to Rs. 500 Mn.**
- ii. Increasing Annual Levy for **betting**;**
  - 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
- iii. Increasing the rate of the levy on Gross Collection from 10% to 15%.**



## 2. Tax Proposals (Contd...)

### Strengthening the Revenue Administration Systems

#### Strengthening the Revenue Administration Systems:

- Proposed to strengthen the Tax Administration Systems for;
  - Efficient Tax Collection,
  - Strengthen Tax Compliance,
  - Prevent Tax Avoidance.
- Mandatory Tax Registration of all residents who are above 18 years
- In addition to the tax policy reforms, it is proposed **to strengthen the revenue administration** at revenue collecting agencies with the infusion of <sup>1</sup>technology and rigorous <sup>2</sup>tax audits
  - : Sri Lanka Customs,
  - : Inland Revenue Department and
  - : Excise Department.



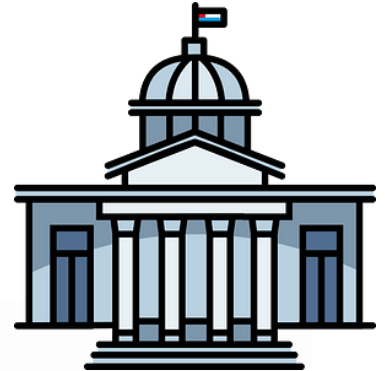
## 2. Tax Proposals *(Contd...)*

### Strengthening the Revenue Administration Systems

- **Strengthening The Customs Administration –**

Proposed to implement recommendations of the “**Presidential Commission of Inquiry into Sri Lanka Customs**” which includes so many recommendations on how to operate the Sri Lanka Customs efficiently & effectively.

- Review the multiple tariff rates,
- Modernize Customs administration through automation,
- Integrated IT Systems to streamline the operations of bonded warehouses,
- Harmonizing of the BOI and Custom arrangements, etc.
- For efficient tax collection, strengthening tax compliances & preventing tax avoidance,
- **Optimize the utilization of Government movable & immovable properties,**
- **Review the activities of the Project offices & units,**



# INTERIM BUDGET 2022 & PROPOSED TAX REFORMS

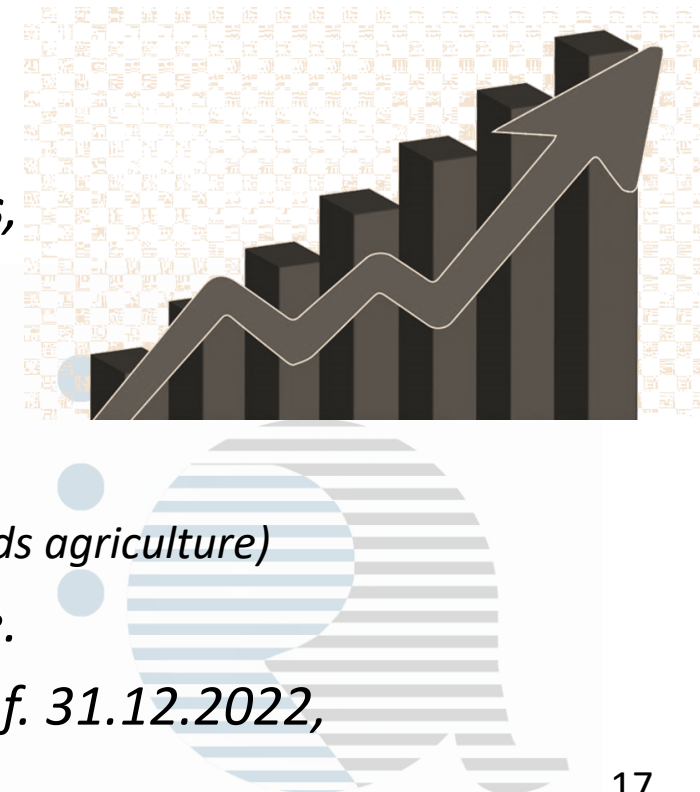
## 2. Tax Proposals (Contd...)

### Strengthening the Revenue Administration Systems & Other Proposals

- Introduction of **online revenue collection system** of Local Government Authority's revenue,
- Promoting of **JVs with local parties** for better utilization of Governmental resources,
- **20% shareholding in state banks** to depositors and to employees **for recapitalization.** 🙄

#### *Other Proposals;*

- *Reduction of high **trade barriers** in the form of para-tariffs.*
- *Duty concessions on raw materials for the manufacture of **electric bikes**,*
- *Granting of duty concessions to promote **local packaging of products**,*
- *Several **new legislations** restabilize the economy & for the growth,*
- *Writing off of the small **farmers arrear loans**,*
- *Promoting domestic **dairy farming**.(Rs. 200Mn. Dairy + Rs. 50 Mn. for State lands agriculture)*
- *Expansion of **renewable energy** sources & allocate State lands for same.*
- *Reduce the Gov. & semi-gov. employees **retiring age** up to 60 years w.e.f. 31.12.2022,*



## 2. Tax Proposals (*Contd...*)

### Strengthening the Revenue Administration Systems & Other Proposals

- A **Parliamentary Committee** be established to closely deal with issues in raising government revenue.
- A new **Central Bank Act**.
- A Financial Regulatory Mechanisms as like the system of **Inspectors General** in the United States.
- Only **electric vehicles** to be purchased for the use of state services.
- **State Owned Enterprise** (SOE) restructuring unit to restructure SL Airlines, CEB & CPC. (Rs.200mn.)
- Establishing a **National Debt Management Agency** under the Treasury.
- For the **Maha Season** - LKR 40Bn allocation for **agricultural** requirements & reduced fertilizer price.
- **Capital Expenditure priority** to Education, Health, digitalization, public sector, and social security.

# INTERIM BUDGET 2022 & PROPOSED TAX REFORMS

## 2. Tax Proposals (*Contd...*)

### Strengthening the Revenue Administration Systems & Other Proposals

- Provide **relief for fishing and estate communities**, hit by Kerosene price hike.
- **Railway Services** to be developed with the private sector.
- Fund allocation to help the **transport of fresh vegetables & fruits** to Colombo through railway. (LKR 200.0Mn.)
- For a program to get attract high-end **tourists**, a five-member committee to be appointed.
- LKR 300.0Mn has been allocated for the development of several **tourism industry projects** targeting 2.5Mn tourist arrivals by 2023.
- LKR 2,500p.m. to **pregnant mothers** in addition to the present LKR 20,000.
- **Samurdhi beneficiaries & elderly and disabled persons' allowance** be increased from LKR 5,000 to LKR 7,500.
- 61,000 **low-income earning families** to receive LKR 10,000p.m. for a period of 4 months.

## Conclusion;

**Government needs the taxpayers' support  
by settling the correct tax on time.**





**FOR FURTHER CLARIFICATIONS PLEASE COMMUNICATE  
WITH US .....**

*Thank  
you*



**ATHULA RANAWEERA (BSc., FCA, FCMA, FMAAT)**  
*Managing Partner: Ranaweera Associates (Chartered Accountants)*  
*Managing Director - Assent Advisory Partners (Pvt) Ltd.*  
*Assent Secretarial Consultants (Pvt) Ltd.*

**+94 777 305 123,**

**[athula@ranaweeraasso.lk](mailto:athula@ranaweeraasso.lk)**

**[athula@assentadvisory.lk](mailto:athula@assentadvisory.lk)**