

INSIGHTS INTO, INLAND REVENUE (AMENDMENT) ACT NO. XX OF 2022 AND VALUE ADDED TAX (AMENDMENT) ACT NO. XX OF 2022:



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INSIGHTS INTO, INLAND REVENUE (AMENDMENT) ACT NO. XX OF 2022 AND VALUE ADDED TAX (AMENDMENT) ACT NO. XX OF 2022:

- Inland Revenue Amendment Bill of 11th October 2022 and
 - Value Added Tax Amendment Bill of 27 September 2022
- are passed in the Parliament on 09th December 2022 after incorporating the amendments proposed by the Supreme Courts & at the Committee Stage.
- Awaiting for the certification of the Amendment Acts by the Speaker.

Why a tax reform was needed:-

- *To get improved the Foreign Exchange Income of the Country,*
- *To get increase the Government Income.*
- *To get improve the GDP of the Country.*

Will these tax reforms meets the above expectations????????????????



INLAND REVENUE (AMENDMENT) ACT NO. XX OF 2022 AND VALUE ADDED TAX (AMENDMENT) ACT NO. XX OF 2022: - Index

COVERAGE No.

1. Individuals Income Tax
2. Corporate Income Tax
3. Withholding Tax (WHT)
4. VAT



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1. Individuals

1.1 Changes which Affect Individuals w.e.f. 01.01.2023

- ❖ Tax Free **Personal Allowance** is reduced from Rs. 3mn to Rs. 1.2Mn p.a.
- ❖ Each tax slab of Rs. 3mn is reduced to Rs. 500,000.
- ❖ 6%, 12% & 18% standard tax rates are changed to 6%, 12%, 18%, 24%, 30% & 36%.
- ❖ Expenditure Relief of Rs. 1.2mn. p.a. is removed.
- ❖ Income Tax exemptions on following businesses profits are abolished **w.e.f. 01.04.2023**;
 - Gold, Gem & Jewellery export businesses,
 - IT & Enabled Services to local market, (*Exemption on export of services continues*)
 - Recycling of construction materials used in a construction industry business,
 - A business commenced by an individual after vocational education,
 - Boat/ship manufacturing business of a resident person,
 - Renewable energy projects above 100MWs,
 - Communication Tower construction, installation & related services,
 - Letting out of bonded warehouses & related offshore businesses.



INSIGHTS INTO

INLAND REVENUE (AMENDMENT) ACT NO. XX OF 2022

1. Individuals

1.1 Changes which relate to Individuals w.e.f. 01.01.2023 (Contd.)

- ❖ Introduction of 15% mandatory WHT on dividends. (Final Tax on any person)
- ❖ Introduction of 5% mandatory WHT on interests. (Not a final tax)(Credit available)
- ❖ Abolishing of the maximum income tax limit of 14% on Profits in respect of **gems & jewellery** and supply of renewable sourced electricity **w.e.f. 01.01.2023.**
- ❖ No change on following existing Income Tax rates on individuals;
 - : Higher IT rate of 40% on Betting & Gambling, Liquor, Tobacco business incomes.
 - : IT rate of 10% on investment Capital Gains.

Note: In the Y/A 2022/23, the 1st 9 months is to be taxed as per the pre-amended Act, while balance 3 months be taxed at amended law. *(On proportionate basis, as applicable)*

1. Individuals

1.2 No Changes are incorporated on the following Income Tax Exemptions:

- ❖ **Compensation & Gratuity** (Capital) income in relation to personal injuries or the death.
- ❖ **Government pension.**
- ❖ Employees **Retirement benefits** receiving from;
 - : **Income portion of any pension fund** & the (interest on or after April 1, 1987) of **ETF**;
 - : CG approved or a regulated **provident fund**. (Both the capital plus interest)
- ❖ Government employees' **road vehicle permit benefit**.
- ❖ Amounts derived by **Senior Citizens on life annuities exceeding 10 years**.
- ❖ **Sale proceeds of gems** on which the 2.5% WHT paid (Sold at a NGJA auction).
- ❖ **Services rendered in/outside SL to be utilized outside SL** and proceeds received through a bank to SL.
- ❖ **Any foreign income earned/derived in foreign currency** & brings to SL through a bank.
- ❖ **Interest income on Foreign Currency deposits.**

INSIGHTS INTO

INLAND REVENUE (AMENDMENT) ACT NO. XX OF 2022

1. Individuals

1.3 Application of Personal Allowance Reliefs & Standard IT Rates:

(a) Existing (From 01.01.2020 up to 31.12.2022):

Personal Tax-Free Allowance (Relief) p.a. Expenditure Relief p.a.				Rs. 3,000,000 Rs. 1,200,000
Out of Taxable Income	Taxable Income (Rs.)	%	Tax (Rs.)	Accumulated Tax (Rs.)
1 st	3,000,000	6%	180,000	180,000
2 nd	3,000,000	12%	360,000	540,000
Sub Total	6,000,000		540,000	540,000
>Rs.6,000,000		18%	xxx	xxx



1. Individuals

1.3 Application of Personal Allowance Reliefs & Standard IT Rates (Contd.):

(b) New Tax Rates (w.e.f. 01.01.2023):

Personal Tax-Free Allowance (Relief) p.a. Expenditure Relief				Rs. 1,200,000 None
Out of Taxable Income	Taxable Income (Rs.)	%	Tax (Rs.)	Accumulated Tax (Rs.)
1 st	500,000	6%	30,000	30,000
2 nd	500,000	12%	60,000	90,000
3 rd	500,000	18%	90,000	180,000
4 th	500,000	24%	120,000	300,000
5 th	500,000	30%	150,000	450,000
Sub Total	2,500,000		450,000	450,000
>Rs.2,500,000		36%	xxx	xxx



INSIGHTS INTO

INLAND REVENUE (AMENDMENT) ACT NO. XX OF 2022

1. Individuals

1.3 Application of Personal Allowance Relief & Standard IT Rates (Contd.):

Income Tax Computation

(After considering former Expenditure Relief of Rs. 1.2mn. p.a.)

Total Income (Rs.)		Former IT p.a. (Rs.)	New IT p.a. (Rs.)	Tax Increase (Rs.)	
Per Month	Per Annum			P.A.	P.M.
350,000	4,200,000	0	630,000	630,000	52,500
400,000	4,800,000	36,000	846,000	810,000	67,500
450,000	5,400,000	72,000	1,062,000	990,000	82,500
500,000	6,000,000	108,000	1,278,000	1,170,000	97,500
550,000	6,600,000	144,000	1,494,000	1,350,000	112,500
600,000	7,200,000	180,000	1,710,000	1,530,000	127,500



INSIGHTS INTO

INLAND REVENUE (AMENDMENT) ACT NO. XX OF 2022

1. Individuals

1.4 Computation of Income Tax at Standard IT Rates – Y/A 2022/23:

(a) From 01.04.2022–31.12.2022 (9months)

Personal Tax-Free Allowance		Rs. 2,250,000		
Expenditure relief up to		Rs. 900,000		
Portion of TI	Taxable Income Rs.	Tax %	Tax Rs.	Accu. Tax Rs.
1 st	2,250,000	6%	135,000	135,000
2 nd	2,250,000	12%	270,000	405,000
Sub Total			405,000	405,000
Excess of Rs. 4,500,000		18%	xxx	xxx

(b) From 01.01.2023–31.03.2023 (3months):

Personal Tax-Free Allowance		Rs. 300,000		
Expenditure Relief.		None		
Portion of TI	Taxable Income Rs.	Tax %	Tax Rs.	Accu. Tax Rs.
1 st	125,000	6%	7,500	7,500
2 nd	125,000	12%	15,000	22,500
3 rd	125,000	18%	22,500	45,000
4 th	125,000	24%	30,000	75,000
5 th	125,000	30%	37,500	112,500
Sub Total			112,500	112,500
Excess of Rs. 625,000		36%	xxx	xxx

INSIGHTS INTO INLAND REVENUE (AMENDMENT) ACT NO. XX OF 2022

2. Corporate Income Tax

2.1 Changes which relate to Companies w.e.f. 01.10.2022;

2.1.1 Income Tax Rates changed as follows:

Source of Income or Business / Type of Entity	IT Rate (%)	
	Previously	Amended
SME as defined in Sec. 195.* ¹ (Applicable only on the Business Income)	14%*	30%
Business of sale of goods or merchandise including export of goods, where the proceeds in <u>foreign currency is remitted through a bank</u> to SL* ¹ .	14%*	30%
Specified Undertakings as defined in Sec. 195 (As detailed below) * ²	14%*	30%
Education, Promotion of Tourism, Constriction Services, Agro-processing and Healthcare,* ¹	14%*	30%
Dividends received from a resident company	14%*	15%
Supply of health protective equipment and similar products by BOI export company to Health Ministry, SL Army, Navy, Air force, Police & COVID Centre.* ¹	14%*	30%

INSIGHTS INTO INLAND REVENUE (AMENDMENT) ACT NO. XX OF 2022

2. Corporate Income Tax

2.1 Changes which relate to Companies w.e.f. 01.10.2022 (Contd.):

2.1.1 Income Tax Rates changed as follows (Contd.):

Source of Income or Business / Type of Entity	IT Rate (%)	
	Previously	New/Amended
Gains and profits from gems and jewellery.	14%*	30%
Y/A 2022/23, 2023/24 & 2024/25 of a company which lists shares with CSE during 01.01.2021 to 31.12.2021. (It overrules all other provisions of this or any other Acts charging higher IT rate/s).* ¹	14%*	30% or 40% as applicable
Gain and profit from supply of electricity generated by using renewable energy resources to national grid.	14%*	30%
Manufacturing (Except for the 5 types of businesses marked with* ¹ above).	18%*	30%
Conducting Betting & Gaming (A Business Income)	40%*	40%

INSIGHTS INTO INLAND REVENUE (AMENDMENT) ACT NO. XX OF 2022

2. Corporate Income Tax

2.1 Changes which relate to Companies w.e.f. 01.10.2022 (Contd.):

2.1.1 Income Tax Rates changed as follows (Contd.):

Source of Income or Business / Type of Entity	IT Rate (%)	
	Previously	New/Amended
<u>Manufacture & sale</u> or <u>import & sale</u> of any Liquor or Tobacco product. (w.e.f. 01.04.2019) (Only the Business Income)	40%*	40%
On <u>Investment</u> Capital Gains	10%	30%
On any other taxable income of a company. (* Not covered in above)	24%	30%

**2 Specified Undertakings includes entrepot trading, offshore, service exports, HQ operations, logistic services, transshipment, freight forwarding, services to exporters, production/manufacture and supply to exporters of non-traditional goods, some gazetted services, sale of gem & jewellery in foreign currencies.*

2.1.2 Application of Income Tax Rates in Y/A 2022/23 & Thereafter

Apportionment of Profit of 2022/23 into two periods;

As per the Section 41 of the Amendment Act No. xx of 2022, the income tax payable by a person for the Y/A 2022/23, shall be calculated separately for the two periods as follows;

Person	First Period	Second Period	Basis of Apportioning of Business Income*
Individuals	First 9 months	Balance 3 months	First Period 75% & Second Period 25%
Non-individuals	First 6 months	Second 6 months	First Period 50% & Second Period 50%

* In arriving of the taxable income, the person **may use** pro-rata basis for the purpose of calculation of the Business Income.

2.1.2 Application of Income Tax Rates in Y/A 2022/23 & Thereafter

Entity / Nature of the Business	2022/23 1 st six months (Up to 30.09.2022)	2022/23 - 2 nd six months (From 01.10.2022)	Y/A 2023/24 onwards
Corporate Income Tax (Standard)	24%	30%	30%
Partnership - No change	6%	6%	6%
Trust	18%	30%	30%
Unit Trust or Mutual Funds	24%	30%	30%
Gains and profits from conducting betting and gaming – No change	40%	40%	40%
Gains and profits from the manufacture and sale or import and sale of any liquor or tobacco product - No change	40%	40%	40%
Realization of investment asset by a company (Capital Gain)	10%	30%	30%

2.1.2 Application of Income Tax Rates in Y/A 2022/23 & Thereafter (Contd.)

Entity / Nature of the Business	2022/23 1 st six months (Up to 30.09.2022)	2022/23 - 2 nd six months (From 01.10.2022)	Y/A 2023/24 onwards
Realization of investment asset by the companies (Investment Capital Gain)	10%	30%	30%
Charitable Institutions – No change	14%	14%	14%
Non – governmental Organizations	24%	30%	30%
ETF, Provident or Pension and Termination Funds – No change	14%	14%	14%
Remittance Tax (First schedule) – No change	14%	14%	14%
Concessionary Tax rates applied Businesses	14% or 18%	30%	30%

INSIGHTS INTO INLAND REVENUE (AMENDMENT) ACT NO. XX OF 2022

2. Corporate Income Tax

2.1.3 Removal of Income Tax Exemptions:

Industry/Legislation	To Whom (Resident/Non R)	Effec. date	Period	Change in the Act
Gain on land/building sold to <u>Real Estate Investment Trust</u>	Both	01.04.2021	Open	Removed w.e.f. 01.10.2022
Non-resident's certain service income from the SL Airlines	N/Residents	01.04.2018	Open	No change
Agro-farming	Both	01.04.2019	5 Years	No change
IT & Enabled Services (For local market)	Both	01.01.2020	Open	Removed w.e.f. 01.04.2023
Local/foreign <u>services to be utilized outside SL</u>	Both	01.01.2020	Open	No change
<u>Any foreign source</u> earned or derived in foreign currency and remitted through a bank to SL.	Both	01.01.2020	Open	No change
Vocational Educational Institute expansion (doubling students)	Both	01.04.2021	5 Years	Removed w.e.f. 01.04.2023

INSIGHTS INTO INLAND REVENUE (AMENDMENT) ACT NO. XX OF 2022

2. Corporate Income Tax

2.1.3 Removal of Income Tax Exemptions (Contd.):

Industry/Legislation	To Whom (Resident/Non R)	Effec. date	Period	Change in the Act
Gold, gems, jewellery exports & gem processing for export	Both	01.04.2021	Open	Removed w.e.f. 01.04.2023
Recycling & sale of such recycled construction materials *	Both	01.04.2021	10 Years	Removed w.e.f. 01.04.2023
Businesses commenced after successful vocational education *	Both	01.04.2021	5 Years	Removed w.e.f. 01.04.2023
Boat and ship building *	Residents	01.04.2021	7 Years	Removed w.e.f. 01.04.2023
Solar or wind power projects not less than 100 MW	Both	01.04.2021	7 Years	Removed w.e.f. 01.04.2023
Construct communication towers & install appliances *	Residents	01.01.2021	5 Years	Removed w.e.f. 01.04.2023
Letting out bonded warehouses for offshore businesses *	Both	01.04.2021	Open	Removed w.e.f. 01.04.2023

INSIGHTS INTO

INLAND REVENUE (AMENDMENT) ACT NO. XX OF 2022



3. Withholding Tax (WHT) **W.E.F. 01.01.2023**

- Remuneration - APIT made mandatory on all employees (*Resident & Non-resident*) receiving remuneration exceeding Rs. 100,000 p.m.
- Dividends - 15% mandatory WHT as a Final Tax on any person.
- Interest & Discount - 5% mandatory WHT, but not as a final tax on any person.
- Other Payments - WHT @ 14%.
- Rent - If Rs.100,000p.m. or more - WHT @ 10% on total.
- Non-residents' service fees & insurance premia - WHT @ 14% on payments.
- Other Service Fee (non-employment) - If exceeding Rs.100,000p.m. to residents - WHT @ 5% on total payment.

4. Value Added Tax - Revisions on VAT

- **Increase of VAT rate:-** w.e.f. 01st June 2022 - 8% to 12% *(Gazetted)*
w.e.f. 01st Sept. 2022 - 12% to 15% *(Gazetted)*
- **VAT registration threshold decreased** from Rs. 300mn p.a./Rs. 75mn p.q. to **Rs. 80mn p.a./Rs. 20mn.p.q.** Need to wait for the certification of the Act by the Speaker do decide the effective date of registration. *(Passed in the Parliament on 09.12.2022)*
- **A few VAT exemptions are removed w.e.f. 1st January 2023 – Specially the VAT exemption on Condominium Residential Apartments is removed** and made liable w.e.f. 1st January 2023. *(Passed in the Parliament on 09.12.2022)*
- **The 0% VAT rate changed to 12%** on 01.06.2022 and again increased to 15% on 01.09.2022 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. 1st October 2022). *[Earlier the 0% VAT was available only if 60% of the total value of the inputs were sourced locally]. (Changes are Gazetted)*

**FOR FURTHER CLARIFICATIONS PLEASE COMMUNICATE
WITH US**

*Thank
you*



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14th December 2022





INLAND REVENUE DEPARTMENT

Notice to the Taxpayers

Implementation of changes to Value Added Tax as passed in Parliament on December 09, 2022

Changes to VAT will be implemented as per the Bill to amend the Value Added Tax Act, No. 14 of 2002 and subsequent Committee Stage Amendments (CSA) as passed in Parliament on December 09, 2022, with effect from the date of certification of the Bill or the date stated in respective clauses of the Bill and CSA and would become law once the Hon. Speaker certifies the Bill which will be incorporated into the final enactment.

According to the Bill passed in Parliament together with the CSA, the significant changes are set out below.

1. Registration Threshold

The present threshold of Taxable supplies for the registration for VAT purpose of Rs. 75,000,000 per taxable period or Rs. 300,000,000 per annum is decreased to Rs. 20,000,000 per taxable period or Rs. 80,000,000 per annum with effect from October 01, 2022.

However, the requirement for the registration will arise from the date of operation of the Amendment Act which will be notified immediately after certification of the Bill.

2. Removal of Exemption

Exemption granted on supply of condominium residential accommodation by any person will be terminated and made liable for VAT with effect from January 01, 2023.

