

DOING BUSINESS

IN SRI LANKA



The network
for doing
business

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1 – INTRODUCTION

UHY is an international organisation providing accountancy, business management as well as consultancy services through financial business centres in over 95 countries across the world.

Business partners work simultaneously within the network to perform transnational operations for the clients as well as to offer expertise knowledge and proactive support within their specific national boundaries. Furthermore, availability of International Consultation specialists from various industries and market sectors make up the total solution package that the organization provides.

This detailed report providing key issues and information for investors considering business operations in Sri Lanka has been provided by the office of UHY representatives:

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably the provided information are general and subjected to changes and should be only used for guidance purposes. During specific matters, investors are strongly advised to obtain further information and take relevant professional advice when it comes to decision making. This publication is current at May 2019.

We look forward to help you manage your business effectively and support you actively to stay ahead of competition in Sri Lanka.

2 – BUSINESS ENVIRONMENT

BACKGROUND

Sri Lanka is an island located at the south of the Indian sub-continent. Known earlier as Ceylon and for many centuries as the pearl of the Indian Ocean, was separated from Indian by a few nautical miles along the narrow Palk Straits and is located at the north of the east-west international shipping corridor in the Indian Ocean.

As the first country that embarked towards economic reform in South Asia in 1977, Sri Lanka offers a variety of opportunities for business and investment. Emerging from three decades of internal conflict, the country's economic fundamentals have improved prominently and at present it experiences sustained levels of good economic growth.

Sri Lanka's economic freedom score is 56.4, making its economy the 115th freest in the 2019 Index. Its overall score has decreased by 1.4 points, with a steep decline in the score for judicial effectiveness outweighing an improvement in fiscal health. Sri Lanka is ranked 25th among 43 countries in the Asia-Pacific region, and its overall score is below the regional and world averages.

Although economic expansion continues, political and economic uncertainties worry investors. Sri Lanka's sizable external debt and twin current and fiscal account deficits signal very weak macroeconomic fundamentals. To maintain growth, the government must service high levels of debt out diminished tax receipts while simultaneously reducing the bloated public sector and lowering historically high budget deficits; it requires better management of public finances and additional structural reforms to improve the business climate. A weak judiciary continues to undermine property rights, and perceived corruption is debilitating high.

POPULATION

The population of Sri Lanka estimated to be 21.02 million in 2019 with the densest areas lying in the urban areas such as the capital, Colombo, and other large cities that are also the industrial and economic hubs of the country. It is growing at a rate of 0.913% annually and houses people from many different ethnicities and religions, which gives the country a multi-cultural and multi-ethnic identity.

GEOGRAPHY

Sri Lanka an island in the Indian Ocean, is separated from India by the Palk Strait, 48km wide stretch of water. The total land area is 65,525 km with internal waters being 1,570 km Most of the island is low-lying yet astonishingly varied. A length of 435km and breadth of 240km encompass beautiful tropical beaches, verdant vegetation, ancient monuments and a thousand delights to please all tastes. The relief features of the island consist of a mountainous mass somewhat south of the centre, with height exceeding 2,500 metres, surrounded by broad plains. The mountainous region of the island is gifted with around 100 waterfalls, while giving birth to numerous rivers, of which the longest at 335km. Palm fringed beaches surround the island and the sea temperature rarely falls below 27°C.

Sri Lanka generally offers warmth and sunshine throughout the year. Temperatures average between 27°C–30°C in Colombo and coasts, and peak in April. They average about 10°C cooler in the hill country. Sri Lanka lies 400 miles north of the equator and is affected by two Southeast Asian monsoons. The Southwest monsoon brings most rain to Colombo and the south and west coasts in May and June. The inter–monsoon affects the months of October and early November, although at all times of year sunshine is plenty and at most time’s rain falls in heavy bursts at night. The Northeast monsoon affects the North and East between December and February. Rainfall is becoming increasingly unpredictable. On average it varies from 1000mm (39in) - 5,000mm (197in) throughout the year. The North and East are dryer, while the western slopes of the central highlands are considered wet. Humidity ranges between 70%–90% in Colombo, lowering the highlands and cultural triangle.

CURRENCY

The monetary unit in Sri Lanka is the Rupee, which consists of 100 Cents (approx. USD 1 = Rs.178 in December 2018). The currency code for Rupees is **LKR**, and the currency symbol is Rs.

LANGUAGE

Sri Lanka is a diverse and multicultural country with many religions, ethnic groups, and languages. In addition to the majority Sinhalese, it is home to large groups of Sri Lankan and Indian Tamils, Moors, Burghers, Malays, and the aboriginal Veddahs.

The first language of the Sinhalese is Sinhala, which is an Indo-European language, and for the Tamils, the first language is Tamil. Tamil is also the first language for the majority of Moors as well. Malays speak Malay, and Indo-Portuguese is spoken by many of the Burghers, although its use has declined and the majority now speaks Sinhala.

English is widely spoken and is the main language used by the business community.

MAJOR EXPORTS

Sri Lanka is the 79th largest export economy in the world and the 101st most complex economy according to the Economic Complexity Index (ECI). In 2017, Sri Lanka exported USD 12 Billion and imported USD 21.1 Billion, resulting in a negative trade balance of USD 9.1 Billion. In 2017 the GDP of Sri Lanka was USD 87.4 Billion and its GDP per capita was USD 4,062.

The top exports of Sri Lanka are Tea (USD 1.37B), Other Women's Undergarments (USD 663M), Knit Women's Undergarments (USD 600M), Knit Women's Suits (USD 561M) and No-Knit Women's Suits (USD 459M), using the 1992 revision of the HS (Harmonized System) classification.

The top export destinations of Sri Lanka are the United States (USD 2.93B), the United Kingdom (USD 918M), Germany (USD 721M), India (USD 712M) and Italy (USD 474M).

MAJOR IMPORTS

The estimated value of Sri Lanka purchasing power parity stood at USD 278 Billion in the year 2017 while it was USD 265 Billion in 2016. Sri Lanka has a trade deficit with most of the countries as the country exports labour, tourism and debt foreign borrowings. Sri Lanka imports of goods from the world worth USD 19500 Million in 2016 and total imports raised by 3% of value during 2015-16.

The country mainly imports Refined Petroleum (USD 2.06B), Gold (USD 936M), Light Rubberized Knitted Fabrics (USD 717M), Plan, Helicopters and/or Spacecraft (USD 687M) and Cars (USD 553M). China and India are the largest goods import partners of Sri Lanka.

The top import origins are India (USD 4.21B), China (USD 3.68B), Singapore (USD 1.66B), the United Arab Emirates (USD1.47B) and Japan (USD 1.02B).

EDUCATION – PRIMARY AND SECONDARY

Literacy rates and educational attainment levels rose steadily after Sri Lanka became an independent nation in 1948. Schooling is compulsory for children from 5 to 13 years of age. Education is state funded and provided free of charge at all levels, including the university level. The government also provides free textbooks to school children. The language of instruction is either Sinhala or Tamil. English is taught as a second language. Several International Schools function in Sri Lanka for foreign expatriates and offer British and American systems of education.

As at now, there are 10,390 government schools. In addition to this there are 33 non-fee-levying private schools and 33 fee-levying autonomous private schools. These schools offer the local syllabus as well as the British system. There is another category of English medium International Schools approved and registered by the Board of Investment, Sri Lanka. Some international schools offer the curriculum for the IB Diploma while others coach students for the Edexcel G.C.E Ordinary Level (O/L) Advanced Subsidiary (A/S) and Advanced Level (A2) examinations. A few schools offer the curriculum for the Cambridge Examinations as well.

TERTIARY EDUCATION

Sri Lanka has 15 universities, all of which are public institutions. Other institutions of higher education include medical schools, engineering schools, schools of law, and technical and vocational training schools and National Colleges of Education.

Admission at undergraduate level to these public universities are based solely on the results of the G.C.E. (A/L) Examination and the Z-score, which considers the difficulty level of the subjects. Due to restricted facilities admissions have become extremely competitive. Only 6% of the students who sit the examination are admitted to the universities. Combined with the fact that those who take the British examinations are not permitted to apply for admission, an increasing number of students are looking for opportunities abroad for continuing their higher studies.

HEALTH CARE SYSTEM

Sri Lanka has over the years built high-quality primary healthcare systems. The Sri Lankan Government strives to provide the best healthcare for its citizens, partnering with both public and private enterprises.

The Public sector under the Ministry of Health operates the largest number of hospitals (593) in Sri Lanka. Consequently the public sector dominates the inpatient segment.

While the public sector operates almost 3 times as many hospitals in the private sector, healthcare expenditure directed towards the private sector accounted for almost 55% of total healthcare expenditure.

The private sector caters to the majority of outpatients (60%) and currently only addresses one tenth of inpatient numbers in the country. There are approximately 197 private hospitals distributed island wide.

Sri Lanka Ayurvedha Service providers attract patients from Germany, Austria Italy and other countries, CIS region, Middle East and Eastern Asia such as Japan and China. Sri Lanka Private Medical service providers attract patients from Maldives and other countries for dental care, cosmetic surgeries and other surgeries.

COMMUNICATIONS

The country has developed its telecommunications industry on par with the developed country standards. As a result of the pertinent regulatory initiatives, the local telecommunications sector has taken pride in being the prime figure to introduce some of the most latest global telecommunications technologies in the South Asian Region.

Sri Lanka has facilitated some of the most advanced technologies in the world such as GSM, 3G, 3.5G and HSPA (High Speed Packet Access) which allows high speed mobile broadband. Sri Lanka is also the first country to introduce Next Generation Networks such as 4G, which would enable the use of WIMAX (Worldwide Interoperability for Microwave Access) and LTE (Long Term Evolution).

- The South East Asia - Middle East - Western Europe 5 (SEA-ME-WE 5) state-of-the-art submarine cable system that will link 17 countries, have a landing point located in Sri Lanka. The 1st of February 2016 marked the arrival of this multi-regional superhighway by the opening of the - cable-landing station building for the SEA-ME-WE 5 in Southern Sri Lanka

- The new cable will assist Sri Lanka in achieving its 'SMART 2020' digital society goals and promoting
- Sri Lanka as a preferred destination in the region for data centre operation

BANKING AND FINANCIAL SERVICES

Central Bank of Sri Lanka is the monetary authority of the country, the sole bank of issue, which also acts as a financial adviser to the government and administers monetary policy.

The banking sector consisted of 25 Licensed Commercial Banks (LCBs), including 12 branches of foreign banks, and 7 Licensed Specialised Banks (LSBs) by end 2017. The banking sector continued to support economic growth and development by the enhanced banking services and the expansion of the banking network, thereby, promoting financial inclusion in the country.

In 2017, several banks introduced technology based products/services to facilitate financial inclusion. Further, 43 new banking outlets and 684 new Automated Teller Machines (ATMs) were established raising the number of banking outlets to 6,227 and ATMs to 4,416, at the end of 2017.

The banking sector asset base surpassed USD 60 billion by end 2017, with year-on-year growth reaching 13.8% by end 2017 from 12% by end 2016. Growth in assets, which slowed down in 2016, picked up during the first half of 2017 but moderated during the last quarter of 2017. The growth in assets was mainly due to the increase in loans and advances, which accounted for 62.5% of the total assets by end 2017.

TRANSPORTATION LINKS

The country is positioned at the traffic circle of major shipping routes linking South Asia, Far East and the Pacific with Europe and America, and is well located next to the fast growing Indian sub-continent with close proximity to Southeast Asia and the Middle East. Sri Lanka has strong air connectivity with over 100 weekly flights to India alone.

The country is also connected to the SEA-ME-WE III and IV (South East Asia – Middle East – Western Europe) fibre optic communication backbone with over 11 communication satellites orbiting above the southern part of the country

Further, our access to key markets providing duty free access to over 1.3 billion consumers from the island, Sri Lanka is the only nation to have free trade agreements with both India and Pakistan. In the year 2000, as an outcome of the Indo-SriLanka Free Trade Agreement (ISFTA), Sri Lanka got strategic access for over 4,200 products at zero duty to India, which is the world's second most populous market.

Also, in 2005, the Pakistan – Sri Lanka Free Trade Agreement (PSLFTA), provided strategic access from Sri Lanka for nearly 4,500 products duty free from 2008, to the Pakistan market.

Bi-lateral trade between Sri Lanka and India has grown more than 5 times and between Sri Lanka and Pakistan has grown 3 times since the agreements were signed. Moreover, by locating in Sri Lanka, a company can also gain privileged trade access to two large regional blocs under the South Asian Free Trade Area (SAFTA) and the Asia–Pacific Trade Agreement (APTA).

HOLIDAYS LABOUR LAW

Wages Board Ordinance and Shop and Office Employees’ Act are covered under laws relating to terms and conditions of employment. Wages Boards are bodies set up to ensure minimum wages and a few other conditions such as holidays, leave and overtime rates in respect of specified trades.

The Shop and Office Employees’ Act applies to all employees within the definition of a “shop” or “office” and deals with five areas regulation of hours of employment in shops and offices: health and comfort of employees, payment of remuneration, regulation of remuneration, closing order for shops and general matters.

The employment of women young persons and children Act, maternity benefits ordinance and employment of females in mines Act are amongst laws on welfare and the well-being of employees.

Laws on social security of employees are addressed by three main mechanisms: employees’ provident fund (EPF), employees’ trust fund (ETF) and the gratuity fund. Such mechanisms enable employees to get financial benefits upon completion of a statutory period of service, change of employment or reaching the retirement age.

3 – FOREIGN INVESTMENT

Sri Lanka pioneered in South Asia's economic liberalization over three decades ago. The following transparent investment laws aim to foster foreign direct investments.

The Board of Investment Law No. 4 of 1978 and its amendments is the principal law applicable to foreign investments in Sri Lanka. BOI is structured to function as the Central Facilitation point for investors and empowered to enter into agreements with investors providing investment incentives of tax holidays, tax concessions and exemptions from customs duty & exchange control law.

FDI (Foreign Direct Investment) inflows to Sri Lanka have increased steadily in recent years driven by the end of the conflict and economic recovery. According to UNCTAD (World Investment Report 2018), the country received a historic influx of FDI in 2017 of USD 1.37 billion, 53% more than in 2016. FDI stock exceeds USD 11 billion in 2017, representing 13.2% of GDP. Manufacturing, IT, tourism and infrastructure recorded the highest growth rates. Growing competition between China (in the energy sector) and India (in telecommunications) is taking shape and currently benefiting the Sri Lankan economy. China, Hong Kong, India and Singapore were the country's largest investors in 2017. The government expects FDI to more than triple to USD 4 billion by 2022.

INVESTMENT PROTECTION

Sri Lanka is one of the safest countries in the world to invest in, due to a number of mechanisms in place to protect investors. The Article 157 of the island's constitution guarantees the safety of investment protection treaties and agreements approved by parliament by a two thirds majority.

Sri Lanka has signed bilateral Investment Protection Agreements (IPA) with 28 countries. The country has a very independent system of courts which can redress any concerns of investors. Sri Lanka also has bilateral Double Tax Avoidance Agreements (DTAA) with 42 countries. Sri Lanka is a founder member of the Multilateral Investment Guarantee Agency (MIGA), an investment guarantee agency of the World Bank. This provides a safeguard against expropriation and non-commercial risks.

Sri Lanka was ranked 111th out of 190 countries in the World Bank's 2018 Doing Business report, however the country aims to be ranked among the top 70 nations of the doing business index by 2020. Sri Lanka promotes following sectors for foreign direct;

- Maritime Sector
- Aviation sector
- Knowledge sector
- Energy sector
- Commercial hub related services
- Tourism sector
- Manufacturing sector
- Infrastructure

- Services sector (Utilities)
- Agriculture sector

4 – SETTING UP A BUSINESS

OVERSEAS COMPANY

An overseas company can establish a “place of business” within Sri Lanka, commonly referred to as a branch office. Registration of a branch office requires the following documents to be filed with the relevant authorities:

- a certified copy of the charter, statutes or memorandum and articles of the company, or other instrument constituting or defining the constitution of the company,
- A statement (Form 44) containing the full address of the registered or principal office of the company; and the principal place of business of the company within Sri Lanka
- A list of the directors of the company (Form 45) containing such particulars with respect to the directors as are by the Act, required to be contained with respect to directors, in the register of the directors of a company
- The names and addresses (Form 46) of one or more persons resident in Sri Lanka, authorized to accept on behalf of the company service of documents and of any notices required to be served on the company
- Power of Attorney, authenticated by the company’s seal, authorising a person or persons resident in Sri Lanka to act on behalf of the said company.

An overseas company registered under the Companies Act, No. 24 of 2017, may carry out any commercial, trading or industrial activity, other than certain specified activities, provided that prior permission has been obtained from the government of Sri Lanka or any other authority, such as the Board of Investment of Sri Lanka established to grant approval for foreign investments for the proposed activities.

Additionally, overseas companies may undertake any non-commercial, non-trading or non-industrial activity, such as those undertaken or carried out by a liaison office, representative office, regional office or other similar office, provided such activities do not provide any income – directly or indirectly – to the company.

“Branch Office” is defined to mean any establishment described as a branch of a foreign company or establishment carrying on the same business or substantially the same business as that carried on by the parent or Head Office.

“Project Office” is defined to mean a place of business established in Sri Lanka to represent the interest of a foreign company to execute a project in Sri Lanka

A ‘liaison office’ or a ‘representative office’ could be set up. The sole purpose is to serve as a collaboration between the new company and the head office/group. There’s no revenue generated here.

“Liaison Office” is defined to mean an office of a foreign company established in Sri Lanka to act as a channel of communication between the foreign company or its Head Office or Group.

“Representative Office” is defined to mean an office established in Sri Lanka by a foreign company engaged in international trading of goods or providing international services to report on business movements in Sri Lanka to the Head Office or to provide advice, information etc. to clients in Sri Lanka concerning goods or services sold in Sri Lanka.

On incorporation of the company, the Registrar of Companies will issue the Certificate of incorporation and a specified number will be given as a registration number of the company.

TYPES OF PARTNERSHIP

A sole trader is a business owned by a person/ an individual and controlled/ managed by himself/ herself.

A partnership is an association of two or more persons or entities that carry on business as partners with a common motive of earning profit. A partnership may be formed verbally, or in writing. Most of the partnerships carry on business in line with the provisions made in the partnership.

COMPANY CAPITAL

An overseas company such as branch office or project office engaged in permitted commercial, trading or industrial activity need an initial investment of USD 200,000. This also applies to an equal amount in other designated foreign currencies. You'll have to record and maintain these funds in the company books until this company ceases its business in Sri Lanka.

A place of business such as liaison office, representative office or other similar office shall remit the funds required for the maintenance of such place of business from abroad in designated foreign currency via Inward Investment Account (IIA).

The following commercial, trading, industrial activities that are not permitted for overseas companies;

- Money lending and pawn Broking
- Retail trade with a capital of less than USD 5 million
- Coastal fishing
- Growing and primary processing of tea, rubber, coconut and rice
- Mining and primary processing of non-renewable national resources
- Freight forwarding, shipping Agency
- Mechanized mining of gems and lotteries

A foreign direct investments in the following businesses have a set limit of 40% of the stated capital of the company.

- Production of goods where Sri Lanka's exports are subject to
- Internationally determined quota restrictions
- Growing and primary processing of sugar, cocoas and spices
- Timber based industries using local timber
- Deep sea fishing

- Mass communication and education
- Outbound travel agency business
- Local air transportation
- Any industry manufacturing or producing- Arms, ammunitions, explosives, military vehicles and equipment, aircraft and other military hardware;
- Poisons, narcotics, alcohols, dangerous drugs and toxic, hazardous or carcinogenic materials;
- Currency, coins or security documents.

TYPES OF COMPANIES

Any company or body corporate incorporated outside Sri Lanka can establish whose business has been granted permission for the purposes of the Exchange Control Act, subject to the exclusions, limitations and conditions published in the Government Gazette No. 1232/14 of 19th April 2002; and

- **Private Companies** - A private company must consist of at least one and not more than fifty members. It must have at least one director. A private company cannot invite public subscription for its shares
- **Public Companies** - At least seven members are required to form a public company (there is no upper limit). It must have at least two directors. Public companies may invite public subscriptions for their shares or debentures and other securities, and can also be listed on the stock exchange. They cannot commence business without a business commencement certificate
- **Offshore Companies** - A company registered within or outside Sri Lanka may register itself in Sri Lanka as an offshore company to carry on any business outside the shores of Sri Lanka. If a company registered outside Sri Lanka registers itself as an offshore company, it is deemed to have been incorporated in Sri Lanka. An offshore company cannot conduct any business in Sri Lanka
- **Subsidiaries** – To establish a business in Sri Lanka foreign companies can incorporate as a local subsidiary company. Following incorporation, a subsidiary in Sri Lanka must comply with all statutory requirements imposed on domestic companies
- **Branch Office** - A company incorporated outside Sri Lanka may establish a place of business in Sri Lanka by registering a branch office with the Registrar of Companies
- **Liaison/ Representative Offices** - company incorporated outside Sri Lanka may maintain its presence in Sri Lanka through a representative office, and is of similar status to that of a branch office. It is however, prohibited from engaging in any trading or investment activity or accruing any turnover in Sri Lanka. No tax incident arises since it is not permitted to trade. Therefore, the question of permanent establishment is not relevant

- **Joint Venture Company** - A joint venture can be with other Sri Lankan companies or foreign entities. A joint venture business may be incorporated or carried on as an unincorporated business similar to that of a partnership. Joint ventures have become popular in recent years; particularly in export oriented projects.
- **BOI Approved Investment** - The Board of Investment (BOI) of Sri Lanka is the primary agency responsible for approving private Foreign Direct Investment (FDI) as well as local investment under the Board of Investment Law No. 4 of 1978 (BOI Law) and its amendments to invest in a permitted business activity either under Section 16 or Section 17 of the BOI Law.

If an investor meet the eligibility criteria stipulated under Section 17 project, the concessions including: corporate tax concessions granted under the Inland Revenue Act of Sri Lanka, customs duty-free Import of capital goods and raw materials (granted under the BOI Law) and exemption from Exchange Control Act.

Foreign investors may obtain BOI approval to set up a Section 16 project If your project does not fulfil the approval criteria required under Sec. 17 of the BOI Law Projects set up under Section 16 of the BOI Law will operate under the normal laws of Sri Lanka and are not eligible for any of the special concessions provided under Section 17 of the BOI Law.

5 – LABOUR

The Sri Lanka Labour Force Survey Annual Bulletin 2018 published by the Department of Census and Statistics states that the economically active population of Sri Lanka is estimated at 8.5 million. Of that about 5.6 million (65%) are males and 2.8 million (35%) are females. Of which, about 46.0% engaged in Service sector, 28.7% in Industries sector and 25.3% in Agriculture sector.

Even though agriculture used to be the dominant contributor to Sri Lanka's economy, by now it is evident that the country's output is more driven by the service sector. This sector should be further advanced due to increasing internet penetration (32%) as well as the on-going investments towards infrastructure such as the Colombo Port City and Western Region (Megapolis) Development projects.

6 – TAXATION

INCOME TAX LAW

The Inland Revenue Act provides the legal authority to charge, levy and collect income tax on the profits and income of every person or partnership.

According to Inland Revenue Act No. 24 of 2017, both resident and non-resident individuals are liable to pay taxes in Sri Lanka. An individual shall be deemed a resident in Sri Lanka for a year of assessment, Resident individuals are taxed on their worldwide incomes while non-resident individuals are taxed only on Sri Lanka-source income. The source of income are;

- Business Income (trade, business, profession or vocation)
- Employment income
- Investment income (rent, dividends, interest, discount or annuities)
- Other income (except profit of a casual and non-recurring nature)

Company Taxation

The following apply to tax-resident companies:

- A company shall be liable to tax separately from its shareholders.
- All business activities of a company shall be treated as conducted in the course of a single company.
- Dividends distributed by a resident company shall be taxed in hands of the company's shareholders, while those of a non-resident company shall be included in calculating the income of the shareholders.

FOREIGN TAX CREDIT

Foreign tax credit may be claimed by a resident person (company) on any tax paid outside Sri Lanka in respect of profits and income arising outside of the country. Such credit should not exceed the amount of Sri Lanka tax payable in respect of such profits or income.

TAX RATES FOR COMPANIES

For any year of assessment, commencing on or after 1 April 2018 a three-tier rate schedule applies as follows:

- Standard rate of 28% on the taxable income, other than gains from the realisation of investment assets which is taxed at 10%.
- Lower rate of 14% is applied for specific sectors
- Higher rate of 40% applies in the case of a company with income from a business consisting of betting and gaming, liquor and/or tobacco
- 0% rate will be applied in respect of an institution in an international network relocating its headquarters or regional head office in Sri Lanka

WITHHOLDING TAX RATES

Any person (company), making a payment of income, shall pay a withholding tax at the prescribed rates:

- Withholding tax on interest to a resident person (except senior citizens): 5%; and all other cases, including a non-resident person: 14%;
- Dividends paid by a resident company: 14%
- Remittance of after-tax profits by non-resident company (remittance tax): 14%
- Rent paid to a resident person: 10%; other cases, including a non-resident person: 14%
- Royalty premium and winnings from a lottery, reward, betting and gambling: 14%
- Service fee or an insurance premium with a source in Sri Lanka to a non-resident person: 14%
- Partner's share of any partnership income: 8%

TAXATION OF CAPITAL GAINS

Capital gains derived by a person (company) will be taxable, effective from April 1, 2018. On change of ownership/realisation of an asset, a capital gain would represent the excess of the consideration received over the cost of the asset, while a capital loss would represent the excess of the cost over the consideration received at 10%.

FILING COMPLIANCE

Every company chargeable with income tax shall file a return of income not later than eight months from the end of the relevant the year of assessment.

All companies with a taxable income from the realisation of an investment asset should file a capital gains tax return no later than one month after the realisation of that asset.

PAYMENT COMPLIANCE

A person, who pays income tax by quarterly instalments is required to pay such instalments according to the following schedules. For a person who makes of accounts to 31 March:

- First three instalments on or before 15th day of August, November and February in that year of assessment; and
- Fourth instalment: on or before 15th May of the next succeeding year of assessment.

FOREIGN TAX CREDIT

Foreign tax credit may be claimed by a professional or other individual in respect of any tax paid outside Sri Lanka on profits and income earned outside Sri Lanka. The tax credit should not exceed the amount of Sri Lanka tax otherwise payable on such profits and income.

7 – ACCOUNTING & REPORTING

According to the Companies Act, No. 07 of 2007, every company shall keep accounting records which correctly record and explain the company's transactions, and will; at any time enable the financial positions of the company to be determined with reasonable accuracy and enable the directors to prepare financial statements in accordance with this Act and readily and properly be audited.

A company shall keep its accounting records in Sri Lanka. However, where the Registrar considers it not prejudicial to the national economy or to the interests of shareholders of the company, he may permit a company to keep its accounting records outside Sri Lanka.

Further, corporate financial reporting requirements in Sri Lanka are outlined in several laws, which include the Companies Act No. 7 of 2007, Securities and Exchange Commission Act No. 36 of 1987, Banking Act No. 30 of 1988, Finance Business Act of 2012, Regulation of Insurance Industry Act No. 27 of 2011, Inland Revenue Act No. 24 of 2017, Microfinance Act No. 6 of 2016, Finance Act No. 38 of 1971, and Accounting and Auditing Standards Act No. 15 of 1995.

The Accounting and Auditing Standards Act No. 15 of 1995 requires specified business enterprises (SBE) to prepare financial statements in compliance with accounting standards as set by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). The institute has adopted the Sri Lanka Accounting Standards (SLFRS). SLFRS are developed based on the 2017 version of the International Financial Reporting Standards (IFRS) consolidated without early adoption, with modifications. CA Sri Lanka has also adopted IFRS for SMEs as SLFRS for SMEs. Furthermore, the amendments to the existing IFRS along with new IFRS are being reviewed and adopted when available.

The Accounting and Auditing Standards Act No. 15 of 1995 stipulates mandatory audits for all SBEs. The act specifies that only Chartered Accountants (CAs), members of CA Sri Lanka with a Certificate to practice, are authorized to perform audits following auditing standards as set by CA Sri Lanka. Under the same legislation, CA Sri Lanka is also empowered to set auditing standards in the country and the institute has adopted the Sri Lankan Auditing Standards (SLAuS). SLAuS are developed based on the 2016 version of the International Standards on Auditing with modifications due to local laws.

8 – UHY REPRESENTATION IN SRI LANKA

UHY Centra Management Associations is a member of UHY global, is a fast growing organization, servicing a diverse portfolio of clients ranging from small to medium enterprises (SME) and large multinationals based in Sri Lanka, India, China, Singapore, Hong Kong, United Arab Emirates, Maldives, and Japan.

Our provision of high quality services lead us to be appointed as one of the major members of UHY International during 2018, and prior to being a member of UHY International we operated under the brand name Centra Management which was active since 2012.

UHY Centra Management Associates in Sri Lanka is being headed with two partners, and supported with more than 40 staff members. Our head office is located in Colombo and we also have a branch under operation in Kandy.

We offer a range of services in **accounting, audit and assurance, tax advisory and compliance service, corporate secretarial service**. We also provide **HR, payroll, and residency visa** service for expats who are employed in Sri Lanka

Please feel free to contact the below officers regarding our services

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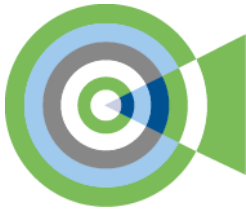
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