

DOING BUSINESS

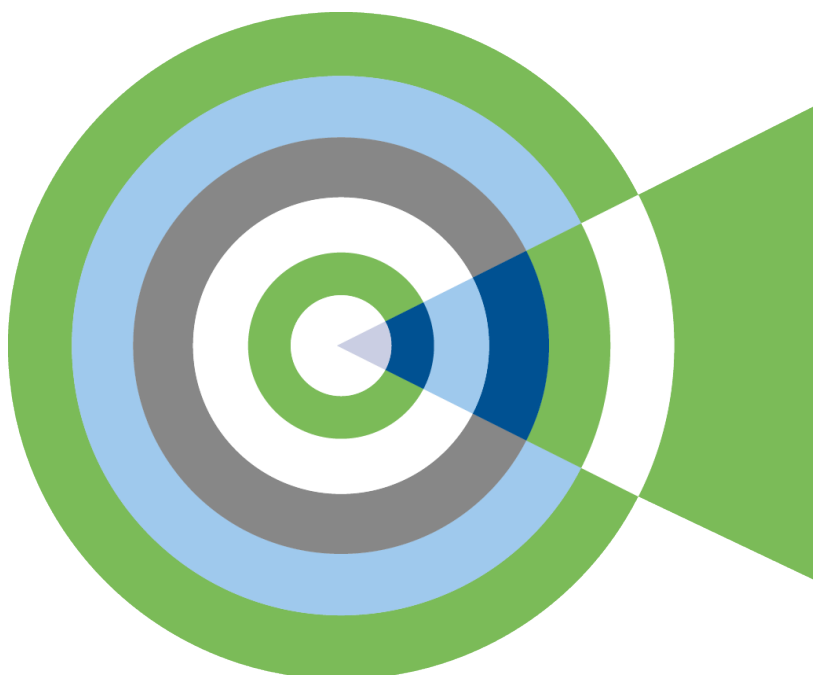
IN SRI LANKA



The network
for doing
business

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1 – INTRODUCTION

UHY is an international organisation providing audit, accountancy, business management and consultancy services through financial business centers in around 100 countries worldwide.

Business partners work together throughout the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering a business operation in Sri Lanka has been provided by the office of UHY's representative there:

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Information in the following pages has been updated so that it is effective at the date shown, but inevitably it is both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current in March 2024.

We look forward to helping you do business in Sri Lanka.

UHY Centra Management Associates (the 'Firm') is a member of Urbach Hacker Young International Limited, a UK company, and forms part of the international UHY network of legally independent accounting and consulting firms. UHY is the brand name for the UHY international network. The services described herein are provided by the Firm and not by UHY or any other member firm of UHY. Neither UHY nor any member of UHY has any liability for services provided by other members.

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 India 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.

The population of Sri Lanka is estimated to be 21.6 million in 2023 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. The total land area is 65,525 km with 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 a 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 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 monetary unit in Sri Lanka is the Rupee, which consists of 100 Cents, the approx. USD = Rs. 329.00, in March 2023. The currency code for Rupees is **LKR**, and the currency symbol is **RS**.

3 – FOREIGN INVESTMENT

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 to foster foreign direct investments. The Board of Investment Act, No. 4 of 1978 (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.

For Promoting itself as a hub for foreign direct investment (FDI) in South Asia, Sri Lanka welcomes businesses with 100 per cent foreign ownership in most sectors and grants them equal status with local investments. Some areas of business including tea, rubber, coconuts, cocoa, rice, sugar and spices, timber-based industries, deep-sea fishing, mass communication, education and freight forwarding require some level of Sri Lankan participation. These reservations are based on the promotion of local industries and national security. Long-term leases are unrestricted, although transfer of freehold title to foreigners is restricted to a few exempted areas.

The Board of Investment (BOI) facilitates medium-scale investments with assistance for regulatory approvals, visas and concessionary taxes. The BOI operates several export processing zones and two industrial parks generally reserved for export-oriented businesses, which draw in considerable foreign investment and create employment opportunities. Provision is made for large-scale 'strategic development projects' (SDP), which are granted special concessions. Smaller investors set up directly with the Registrar of Companies (ROC). In an attempt to speed up and streamline the approval process, the BOI has recently implemented an Investment Facilitation Center to assist in line agency approvals and help investors find equity and technology partners.

Sri Lanka has liberalised much of the currency controls on investments. One hundred per cent outward remittance of the proceeds of investment is freely permitted. Inflow and outflow are monitored by the Central Bank of Sri Lanka's Department of Foreign Exchange (DFE) through designated bank accounts. Residence visas are available for workers and dependents but are subject to labour market testing.

Some key industry segments encouraging investments are IT and IT-enabled services, pharmaceuticals, power projects, export-oriented manufacturing, agriculture, construction, tourism and travel.

In 2021, the Colombo Port City Special Economic Zone (SEZ) and the Colombo Port City Economic Commission (CPCEC) were established. CPCEC is the one-stop-shop (Single Window Investment Facilitator) that registers and issues licenses, authorisations and approvals to engage in business within, and invest in, the SEZ. CPCEC is encouraging and promoting global and regional investments in international trade, shipping, logistics operations, offshore banking and finance, IT and business process outsourcing, establishment of corporate headquarters, regional distribution operations and tourism.

INVESTMENT PROTECTION

Sri Lanka is a founding member of the Multilateral Investment Guarantee Agency and long-term member of the WTO, United Nations Conference on Trade and Development and World Intellectual Property Organization. The country was among the first to ratify the General Agreement on Tariffs and Trade,

General Agreement on Trade in Services and Agreement on Trade-Related Aspects of Intellectual Property Rights.

Sri Lanka is a party to 28 bilateral investment promotion and protection treaties and 44 double taxation treaties. The country also enjoys preferential access to foreign markets under its free trade agreements with several countries, including Singapore and all the members of the South Asian Association for Regional Cooperation. Sri Lanka is also one of the few beneficiaries to the EU's Generalised Scheme of Preferences.

Sri Lanka has managed to improve a notch in World Bank's "Ease of Doing Business index" for 2022 to rank 99, up from 100th in 2021, out of 190 economies across the world.

4 – SETTING UP A BUSINESS

The government of Sri Lanka is providing more opportunities & facilities for foreign investors. Recently, Sri Lanka launched a one-stop online shop to help the foreign investor to obtain all official approvals. We, UHY Centra Management help foreign investors to set up their business in Sri Lanka, and any other services including a registration of a new company in Sri Lanka, accounting and audit service, tax and statutory compliance service, residence visa for expats and overall business advisory services.

Any person residing outside Sri Lanka may engage to open a place of business in Sri Lanka, the permission granted for such a place of business governed by either under Board of Investment (BOI) Act, No. 04 of 1978 or Foreign Exchange Act, No. 12 of 2017 in Sri Lanka, subject to certain exclusion and limitation.

Further, a company incorporated outside Sri Lanka and can be registered as an “overseas company” shall have the meaning as given in the Companies Act No. 24, of 2007. An overseas company registered as a branch office under the Companies Act, No. 24 of 2007, 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.

However, an overseas company 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. An overseas company such as a 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.

5 – LABOUR

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, the maternity benefits ordinance, and the 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.

6 – TAXATION

PERSONAL TAXATION

According to the provisions under the Inland Revenue Act, No. 24 of 2017 as amended by the Inland Revenue (Amendment) Act, No. 10 of 2021. The Inland Revenue Act provides the legal authority to charge, levy and collect income tax on the gains and profits of every person. The gain and profit of a person is the total income from the following sources of income:

- Employment Income - an individual's gains and profits from employment for a year of assessment.
- Business Income - a person's gains and profits from conducting the business for the year.
- Investment Income - a person's gains and profits from conducting the investment for the year.
- Other Income – a person's gain and profit from other sources for a year of assessment.

According to the amendment Inland Revenue Act, the personal income tax relief has been restricted to 1,200,000 (USD 3650) per annum effect from January 2023 for resident and non-resident citizens. The excess amount will be taxed at a progressive rate of 6% to 36% of their income.

COMPANY TAXATION

A company having its registered or principal office in Sri Lanka, or where the control and management of its business are exercised in Sri Lanka shall be deemed to be a resident of Sri Lanka. A company incorporated in Sri Lanka will have a registered office in Sri Lanka. Therefore, even though the shares of the company are owned entirely by non-residents of Sri Lanka, a company incorporated in Sri Lanka will be considered to be a resident of Sri Lanka for income tax purposes.

A 30% income tax is applied on the taxable profits, which is arrived at after adjusting the accounting profits as recorded in the audited financial statements of the company. A resident company is required to pay 15% as dividend tax on any dividend distributed by the company. Where the recipient is a resident of a country with which Sri Lanka has a double-tax treaty, the rate specified in such treaty will apply.

A company registered as an overseas company will be considered to be a non-resident for income tax purposes. A non-resident will be liable to income tax on the profits and income arising in or derived from Sri Lanka. This will include profits from rendering services in Sri Lanka, property in Sri Lanka or business transacted in Sri Lanka. The prevailing income tax rate applied to profits of such company will also be at the rate of 28%. Where the company registered in Sri Lanka is a resident in a country with which Sri Lanka has a double-tax treaty, the articles in such treaty will apply in determining the tax liability of such company in Sri Lanka. This tax will only apply to an overseas company registered in Sri Lanka as it is only imposed on a company that is not resident in Sri Lanka.

A profit remittance tax of 14% will be charged on the aggregate amount of remittances made by such firm. The tax paid may be claimed as a tax credit in the country where the recipient resides if the recipient is a resident of a country with which Sri Lanka has a double-tax treaty.

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 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.

A person, who pays income tax in quarterly instalments basis, is required to pay such instalments according to the following schedules for the financial year ended 31st March: the first three instalments: on or before 15th day of August, November, and February in that year of assessment; and the fourth instalment: on or before 15th May of the next succeeding year of assessment.

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 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 Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 authorises the Institute of Chartered Accountants of Sri Lanka to issue Sri Lanka accounting standards and requires specified business enterprises to prepare and present their financial statements in compliance with Sri Lanka accounting standards. Sri Lanka accounting standards comprise accounting standards prefixed both SLFRS and LKAS. SLFRS refers to Sri Lanka Accounting Standards corresponding to international financial reporting standards, and LKAS are Sri Lanka Accounting Standards corresponding to international accounting standards. Sri Lanka accounting standards are commonly referred to as SLFRSs.

In addition, Sri Lanka has also adopted all International Financial Reporting Interpretations Committee and Standard Interpretations Committee pronouncements, issued by the International Accounting Standards Board. Sri Lanka accounting standards further comprise of statements of recommended practices, statement of alternate treatment and financial reporting guidelines, which are issued by the Institute of Chartered Accountants of Sri Lanka.

8 – UHY REPRESENTATION IN SRI LANKA



UHY CENTRA MANAGEMENT ASSOCIATES SRI LANKA



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Fax: +94 112 301 608
www.uhycentra.com

CONTACTS

SOCIAL MEDIA CONNECTIONS

- LinkedIn: <https://www.linkedin.com/in/uhy-centra-management-srilanka-854978158/>

Year established: 2012
Number of partners: 2
Total staff: 39

ABOUT US

Redefining Excellence

BRIEF DESCRIPTION OF FIRM

UHY Centra Management Associates is a full member of Urbach Hacker Young (UHY) International Limited, established in 2012 which has become one of the leading Chartered Accounting (CASL) firms in Sri Lanka within a decade, offering diversified business advisory services. Currently, we operate with two offices, a corporate office in Colombo and a branch office in Kandy supported by highly motivated partners and with over forty professional employees focused on serving clients' needs with the utmost integrity. Our vision is "to be the leading business advisor and reliable business partner in Sri Lanka by working closely and together with our clients and our alliance partners". We are committed to the development of a professional practice that is well placed to provide a comprehensive scope of professional services to our clients and offer our staff the opportunity for personal advancement in a dynamic and exciting business environment.

SERVICE AREAS

Finance Services

SPECIALIST SERVICE AREAS

BPO Services
Business Advisory Service
Payroll & Visa Service
Government Sector Registration & Approvals
Staff Recruitment & Training
Finance due diligence & feasibility studies
Permanent establishment (PE) & Transfer Pricing
Legal services



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UHY CENTRA MANAGEMENT ASSOCIATES SRI LANKA



PRINCIPAL OPERATING SECTORS

Accounts & Audit
Company Incorporation & Approvals
Tax & Compliance Services

LANGUAGES

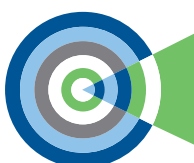
English
Sinhala
Tamil

CURRENT PRINCIPAL CLIENTS

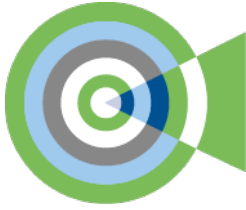
Agent for Dialog Axiata PLC
Agent for Dialog Axiata PLC (2)
Aluminium & Engineering, China
Computerized Graphics & Printing, Sri Lanka
Construction & Civil Engineering, China
Desing & Printing, Sri Lanka
Digital Printing, Sri Lanka
Eraeliya Villas & Gardens, Weligama
FB_IMG_1597854077452
IT Solutions, Worldwide
Leading Car Exporter, Japan
Member of TATA Housing, India
Mobile & Communication, Hong Kong
Office Space, Sri Lanka
Printing & Packaging, Sri Lanka
Printing and Media, Sri Lanka
Riding & Sports, Sri Lanka
Security & Safty, Sri Lanka
Sole Agent, Sri Lanka
Specialized Doors & Windows, China
Spices Exporters, Sri Lanka

BRIEF HISTORY OF FIRM

UHY Centra Management Associates is a member of UHY, global, is a fast-growing organization network of independent member firms, servicing a diverse portfolio of clients ranging from small-medium enterprises (SME) to 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 a full member of UHY global in 2018, and prior to being a member of UHY International, we operated under the brand name Centra Management which has been active since 2012. UHY Centra Management in Sri Lanka is being headed by three partner directors and supported by more than 40 staff members. Our head office is located in Colombo and we also have a branch under operation in Kandy.



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LET US HELP YOU ACHIEVE FURTHER BUSINESS SUCCESS

To find out how UHY can assist your business, contact any of our member firms. You can visit us online at www.uhy.com to find contact details for all of our offices, or email us at info@uhy.com for further information.

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