

BUDGET PROPOSALS – 2021

This has been prepared according to the budget speech done by the Prime Minister and Minister of Finance, Honorable Mahinda Rajapaksha on 17th November 2020 in the Parliament of Sri Lanka.

Income Tax

- Personal income tax will apply on earnings from employment, rent, interest, dividends or any other source only if it exceeds Rs. 250,000/- per month. Withholding tax on rent, interest or dividend and the PAYE tax and taxes on interest have been abolished.

<i>Description</i>	<i>Rate</i>
First Rs. 3,000,000/-	6%
Next Rs. 3,000,000/-	12%
Balance	18%

- Corporate Income Tax
 - Exports, Tourism, Education, Medicare, Construction, Agro processing and SMEs – 14%
 - Manufacturing – 18%
 - Trading, Banking, Finance, Insurance, etc. (Standard Rate) - 24%
 - Manufacture and selling or import and selling Liquor, Tobacco, Betting and Gaming- 40%
- Tax Exemptions ;
 - Farming, Agriculture, Fisheries and Livestock farming industries will be exempted from all taxes during the next five years.
 - Dividends received by foreign companies will be exempted for three years, if the money is invested in Sri Lankan sovereign bonds or in the stock market.
 - 50% tax concession for the year 2020/2021 to local companies which listed in stock market before 31.12.2021. Further, tax rate will be charged at 14% for the subsequent 3 years.
 - A five year strategic tax relief will be granted for investments more than USD 25 Million in the Dairy Industry.
 - 3 years tax holiday for gem exporters.
 - Tax exemption of 5 years on start-up businesses upon the successful completion of vocational education.
 - A tax holiday of five years to private vocational institutions that double their intake.
 - A tax holiday of 7 years for all renewable energy projects.
 - A tax holiday of 7 years for local boat and ship building.

- Ten-year tax holiday for investments in selected recycling sites.
- Capital gain tax base will be changed.
- Income tax amnesty with a payment of 1% tax payable.
- Outstanding dues on the taxes such as the Economic Service Charge and the Nation Building Tax administered by the IRD are proposed to be settled through a mechanism which includes a concessionary payment plan.
- All Companies to file their taxes only on an “E-Filing” system and the use of the Tax Identification Number (TIN) in all tax and tax related transactions (effective from 01 April 2021).

Value Added Tax (VAT)

- Online managed single special GST to be imposed in place of the various goods and service taxes and levies, imposed for alcohol, cigarettes, telecommunication, betting & gaming and vehicles.
- VAT threshold of business turnover of Rs. 300 million per annum and 8% VAT rate will remain same

Others

- Every company and person must have an income tax file with effect from 01.04.2020.
- Government will propose to establish online managed system to ease the collection of taxes.
- Government will introduce laws against auditors and companies that prepare false tax records.
- Non-resident persons will allow to purchase super luxury condominiums using foreign currency in the country.
- A special Court of Appeal to hear public complaints pertaining to tax.
- New laws will be introduced in relation to data security, cyber security and intellectual property.
- A new investment zone will be introduced for local and foreign investors.
- Insurance scheme for employees should be introduced by companies having more than 50 employees. Employers to contribute 0.25% of the turnover to the proposed insurance fund.
- A loan of Rs. 500,000/- will be granted to entrepreneurs as start-up capital with a grace period of 5 years.
- Guaranteed purchasing prices to be introduced for certain crops cultivated by farmers.
- Propose to minimize taxes levied by local governments on tourism sector.

- Daily basic wages of plantation sector workers will be increased to Rs. 1,000/- from 1st January 2021.
- Single-use polythene and plastic to be banned from 1st January 2021.
- Retirement age of private and government employees to be increased to 60 years.
- Reduce the import taxes levied on vehicle spare parts.
- Companies Act No. 7 of 2007 will be amended.
- Import levies on the motor vehicle industry to be provided relief.
- Proposed to amalgamate subsidiary finance companies to holding company.
- Legal framework to monitor finance companies.
- Construction equipments will be exempted from import taxes.
- Sri Lankan migrant workers to receive Rs. 2/- for every dollar remitted, in order to increase annual remittances.
- Reduction of stamp duty up to 0.75% on investments in the housing market through the SLREIT regulated by the Securities and Exchange Commission.

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