BUDGET PROPOSALS 2023



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Budget Proposals 2023 - Taxation

1. Income Tax (Amendments to the Inland Revenue Act, No.24 of.2017)

1.1 Exemptions

1.1.1 Income earned by non-resident persons from engaging in Government projects approved by the Minister of Finance taking into consideration the economic benefit to the country, where such project is totally funded from foreign grants.

1.2 Administrative Reviews (Amendment of Section 139 of IRA)

1.2.1 The time period for the Commissioner General to notify the decision and the reasons for the decision in respect of a request made on or after April 01, 2023 by a taxpayer for an Administrative Review, will be within two years from the date of receipt of such request.

1.2.2 Where the decision of the CGIR is not notified within two years period, the request will deem to have been allowed.

1.3 Provisions will be introduced to improve the clarity of income tax liability on dividend during the period from October 1,2022 to the effective date of the Inland Revenue (Amendment) Act, 2022, as follows: -

i. exempt dividend received or derived by non-residents during that period

ii. apply income tax rate of 15% for dividend received or derived by residents during that period

iii. exemption will be applicable on any dividend paid by a resident company to a member to the extent that such dividend payment is attributable to, or derived from, another dividend received by that resident company or another resident company.

1.4 Broadening the Tax Base

While encouraging the voluntary compliance, necessary legal provisions will be introduced to strengthen the tax enforcement mechanism, including enhanced audit and verification program, in order to ensure all potential taxpayers are registered within tax system and pay the due tax.

2. Value Added Tax (VAT) [Amendments to the Value Added Tax Act, No.14 of 2002]

2.1 The exemptions specified in the First Schedule to the VAT Act will be rationalized with effective from April 1, 2023.

2.2 A new Value Added Tax Act will be introduced consolidating the amendments introduced from the year 2002 to the year 2022.

3. Social Security Contribution Levy (SSCL) [Amendments to the Social Security Contribution Levy Act, No.25 of 2022]

3.1 Importation of any motor vehicle identified under Harmonized Commodity Description and Coding Numbers for Custom purposes and liable to Excise Duty under the Excise (Special Provisions) Act, No. 13 of 1989, will be exempted from SSCL with effect from 01.01.2023.

3.2 Equipment used by differently abled persons and the pharmaceutical product categorized under HS code 2844.40, will be exempted from SSCL.

4. Finance Act

4.1 Amendment of Commercial Hub provisions

4.1.1 Provisions relating to the commercial hub operations in the Finance Act, No.12 of 2012 and the Finance Act No.12 of 2013 will be consolidated.

4.1.2 Enterprises that are eligible for the exemptions under the commercial hub activities will be extended to bunkering services.

4.1.3 Any business or project intends to engage in the commercial hub activities will be eligible for exemptions granted under the Strategic Development project Act, No.14 of 2008, if identified as Strategic Development Project.

4.1.4 Commercial hub enterprises will be exempted from the Levy imposed under the Social Security Contribution Levy Act, No.25 of 2022.

4.2 Exemption of certain unregistered motor vehicles from the application of certain provisions of the Motor Traffic Act (Chapter 203)

Vehicles which were assembled in /imported in to Sri Lanka and remain unregistered as at November 12, 2021, from the application of Section 2A, (1) (a) of the Motor Traffic Act, (Chapter 203) to allow such vehicles to be registered under the said Act, if such vehicle, in the opinion of the Commissioner General of Motor Traffic is roadworthy.

4.3 Release of vehicles seized at the Sri Lanka Customs owing to non-Payment of applicable taxes and other reasons

Following vehicles seized at the Sri Lanka Customs owing to non-payment of applicable taxes and other reasons, will be released from the Sri Lanka Customs, subject to the payment of applicable taxes and fines.

(a) Any vehicle imported in to Sri Lanka on or after May, 22,2020 but prior to November 12, 2021 and not removed from the Sri Lanka Customs due to restrictions and prohibitions set out in the Regulations made under the provisions of the Import and Export (Control) Act, No.1 of 1969, or

(b) Any vehicle propelled electrically, imported prior to November 12, 2021 and not removed from the Sri Lanka Customs due to non-payment of applicable taxes.

4.4 Surcharge Tax

4.4.1 A Surcharge tax will be charged at the point of importation, on diesel, petrol and crude oil.

5. Betting and Gaming Levy and Casino Business Regulation (Amendments to the Betting and gaming Levy Act, No. 40 of 1988 and Casino Business (Regulation) Act, No.17 of 2010

5.1 Betting And Gaming Levy Act

5.1.1 The definition of "bookmaker" in Betting and Gaming Levy Act will be extended to include a person receives or negotiates bets on all type of sports event, including online betting

5.1.2 A licensing mechanism for the business of bookmaker will be introduced, for a fee. Betting and Gaming Levy Act will be amended to permit the licensed bookmakers to register with Inland Revenue Department.

5.1.3 Engaging in the business of bookmaker without been licensed and registered by any person will be prohibited by making it a punishable offence.

5.2 Casino Business (Regulation) Act

5.2.1 Amendments will be introduced to extend the definition of gaming/ casino to include the online gaming/casino.

5.2.2 The regulatory and licensing requirements will be applicable for online casinos operate in Sri Lanka. Any online casino operating without a license will be made illegal.

6 Tax Appeals Commission Act, No.23 of 20l1

6.1 Revision of fees

6.1.1 The fee levied to state a case on a question of law for the opinion of the Court of Appeal will be increased to Rs.10,000/-

6.1.2 The fee levied to make an appeal to the Commission will be increased to Rs.15,000/- by issuing a Gazette Notification under Section 8 of the TAC Act.

6.2 Validity of Bank Guarantee

6.2.1 Provisions will be incorporated to make the bank guarantee provided by an appellant under Section 7 of the TAC Act, valid until the appeal is determined, irrespective of laps of 270 days provided under Section 10 of TAC Act.

6.2.2 Provisions will be incorporated to make it mandatory to transfer the bank guarantee to the Commissioner General of Inland Revenue irrespective of the appellant's decision to appeal to the Court of Appeal.

7 Import Taxes

7.1 Unit rate (Fixed Rate) of the Customs Import Duty and CESS Levy will be adjusted absorb in line with the Rupee depreciation and for avoidance of under-invoicing and under-valuation at the point of Customs clearance. Accordingly, Customs Import Duty on a total of 378 selected HS Codes will be adjusted under the Export Development Board Act, No.40 of 1979, effective from November 15,2022.

7 .2 The HS Code 2022 version will be implemented effective from January 1, 2023.

7.3 The existing three band tariff system of 0%,10% and 15% will be revised as a three-band tariff of 0%,15% and 20%.

8 Fees and Charges

Fees and charges which have not been revised for three years from 2020 to 2022 will be increased by 20%

9 Effective date of Amendments

Unless specifically mentioned otherwise in this Technical Note or the relevant Tax Legislation, amendments proposed herein before will be effective from April 1, 2023.

10 Technical Rectifications and Administrative provisions

Necessary amendments will be made to the respective provisions of the, Inland Revenue Act, No.24 of 2017, Value Added Tax Act No.14 of 2002, Finance Acts and Finance (Amendment) Acts, Telecommunication Levy Act No 21 of 2011, Tax Appeals Commission Act No 23 of 2011, in order to streamline the revenue administration and to rectify certain ambiguities and unintended effects (including differences in translations).