2025

BUDGET PROPOSAL

CIRCULAR TO CLIENTS



PRESENTED BY

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

1.1 The requirement of filing the Statement of Estimated Tax payable (SET) will be removed with effect from the Year of Assessment 2025/2026.

1.2 Provisions will be introduced to calculate the amount of each instalment of tax payable by any person for a year of assessment, based on the income tax payable by such person for the immediately preceding year of assessment.

1.3 Any amount derived, by any non-resident person as any payment for air craft, software licenses or as for other related services from the Sri Lanka Air Force, will be exempted.

1.4

i. Withholding tax will not be deducted by a financial institution from the interest paid on deposit made with that financial institution by any senior citizen, whose assessable income from all sources does not exceed Rs.1,800,000/- for any year of assessment and if such individual tenders a declaration to the financial institution confirming his assessable income.

ii. Any Individual, other than senior citizen, whose assessable income from all sources does not exceed Rs.1,800,000/- for any year of assessment, will be entitled to a refund of WHT deducted on interest under the refund scheme presently applicable for senior citizens.

iii. Relevant guidelines including the format of the declaration, will be issued by the Commissioner General of Inland Revenue (CGIR).

1.5 Senior citizens will be allowed to file their income tax returns manually, starting from the year of assessment 2024/2025.

1.6 Provisions will be introduced in the Act clarifying the chargeability of income tax on the life insurance proceeds and other amounts received by policy holders.

1.7 The current tax treatment provided under Section 46 of the Inland Revenue Act, which applies to the transfer of ownership of an asset to an associate of an individual or a charitable institution, will be expanded to include the transfer of assets to the Sri Lankan Government or to a university established or deemed to be established under the Universities Act, No. 16 of 1978.

1.8 The Capital Gain Tax (CGT) rate applicable for individuals and partnerships will be increased to 15%. The CGT rate applicable for all other entities will be raised to 30% in par with the corporate capital gains tax rate.

1.9 The CGIR will be authorized to waive interest imposed under the provisions of the Inland Revenue Act, No. 24 of 2017, and the Surcharge Tax Act, No.14 of 2022, if;

- the tax liability has arisen for the year of assessment 2022/2023 or any previous Y/A, and,
- the total amount of tax should be paid within six months of the statutory amendment.

1.10 The tax resident rules will be re-visited to provide for the followings: -

i. A holder of Golden Paradise Resident visa will be treated as a non-resident for income tax purposes;

ii. Any individual who is deemed to be a resident for income tax purpose only due to the reason of he is being employed in a Sri Lanka flagged vessel, will be treated as a resident in Sri Lanka during the period he is so employed; and

iii. Any individual who is a citizen or subject of any country other than Sri Lanka, but deemed to be a resident in Sri Lanka due to the reason of he is being employed in a Sri Lanka flagged vessel, will not be liable to income tax as a resident in respect of any income that has no source in Sri Lanka, other than his income from employment in such ship

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

2.1 Import of packing materials for the use of packing of pharmaceuticals or ayurvedic medicines manufactured in Sri Lanka and which are imported by the manufacturer of such pharmaceuticals or ayurvedic medicines, so far as such packing materials are not manufactured in Sri Lanka as approved by the Secretary to the Ministry of the Minister to whom the subject of Health is assigned or the Commissioner of the Department of Ayurveda, will be exempted from VAT.

2.2 Provisions will be introduced permitting the issuance of regulations prescribing the manner of registration, charging, collection, filing return, etc. relating to the imposition of VAT on the services provided through digital platforms.

2.3 Amendments consequential to the removal of SVAT and facilitate the refunding process will be incorporated in the VAT Act.

2.4 Simplified Value Added Tax (SVAT) system will be replaced by a risk- based refund system. To ensure the smooth operation of the new system, a pilot project will be implemented, to issue refunds through the RAMIS, subject to the conditions specified in the Risk Based Refund Scheme as may be specified by the CGIR, by an order published in the gazette.

2.5 Entertainment tax charged by the local authorities will be allowed to deduct in ascertaining the value of supply of film exhibition service.

2.6 Supply of goods or services by/to any a business identified and approved as a "Business of Strategic Importance" in terms of Section 52 of the Colombo Port City Economic Commission Act, No.11 of 2021 subject to the Colombo Port City (guidelines on the grant of exemptions or incentives to Businesses of Strategic Importance) regulations, No. 2 of 2023, as specified in the Extraordinary Gazette Notification No.2343/60 dated 04.08.2023, with effect from 01.01.2024.

2.7 Value Added Tax Arrears as per records of Commissioner General of Inland Revenue in respect of projects carried out by construction contractors of Tsunami projects, will be written off.

2.8 Input tax deduction on the capital goods such as machinery, equipment or vehicles imported for projects where the value added tax at the time of import is differed, will be disallowed.

2.9 Use of Point of Sale (POS) Machines by the VAT registered persons will be made mandatory and operationalized.

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

3.1 The term "transportation of Goods and passengers" will be defined to include the services provided in relation to international transportation by container terminal operators.

3.2 Exemption applicable for the articles specified under Item 4 of Part 1B of the First Schedule of the SSCL Act, will be clarified to include the wholesale or retail sale of such articles.

3.3 Exemption provided under Item 24 of Part 1A of the first Schedule to the SSCL Act, will be granted for machinery or equipment imported or purchased locally for the purpose of generating electricity by any institution which has entered in to an agreement with the CEB prior to February 18, 2025.

4. Stamp Duty

4.1 Stamp Duty applicable on any instrument relating to the lease or hire of any property will be increased from Rs.10 to Rs.20, for every Rs. 1,000 or part thereof of the aggregate lease or hire including any premium, payable for the whole term comprised in the lease or hire Agreement (other than a hire purchase agreement), with effect from 01.03.2025. That is, current Stamp Duty rate of 1% will be increased to 2%.

5. Betting and Gaming Levy (Amendments to the Betting and gaming Levy Act, No. 40 of 1988

5.1 The Gross Collection Levy will be increased to 18%.

5.2 Casino Entrance Levy will be increased from USD 50 to USD 100.

6. Tax Appeals Commission Act, No.23 of 2011

6.1 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/-.

6.2 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.

6.3 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.

6.4 An appeal to the TAC will not be permitted unless, a cash deposit of a sum equivalent to 25% of the disputed amount of assessment of tax, penalty and interest, is deposited in a special account opened by the CGIR.

6.5 An appeal to the TAC will not be allowed unless a request for administrative review has first been made and a decision thereon has been received from the CGRIR or a request for administrative review is deemed to have been disallowed.

6.6 Necessary legal provisions will be introduced to mediate settlements between the CGIR and the Appellant, subject to the supervision of the Commission in appropriate cases during the course of hearing the Appeal.

6.8 Submission of any evidence that was not previously submitted to the CGIR during the assessment or the administrative review process and taking up new issues which were not taken/disputed during the assessment or the administrative review process, during hearing of Appeal, will not be allowed.

6.7 The term of office of the members of the panel of Legal Advisers of the Commission will be made equal to the term of office of the members of the Commission and the panel members will be made eligible for re- appointment.

6.8 The term of office of the members of the Commission will be increased from 3 years to 5 years from the date of appointment.

If you need any further clarification, please contact

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