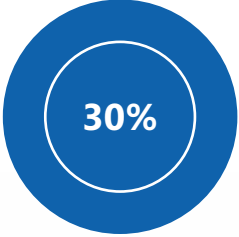
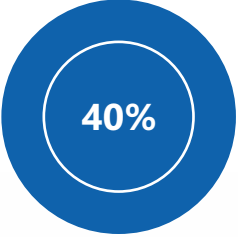




# Investment Incentives - 2023

## Corporate Income Tax (CIT)

| Standard CIT   | Higher CIT   | Tax Holiday   | Exemption   |
|--|--|---|---|
|     |   |   |    |
| <ul style="list-style-type: none"> <li>Standard Corporate Income Tax Rate</li> </ul> | <ul style="list-style-type: none"> <li>Gains and profits from conducting betting and gaming</li> <li>Gains and profits from the manufacture and sale or import and sale of any liquor or tobacco products</li> </ul> | <ul style="list-style-type: none"> <li>Pharmaceutical manufacturing (inside dedicated zone)</li> <li>Textile manufacturing (inside dedicated zone)</li> </ul> | <ul style="list-style-type: none"> <li>Export of services including ICT</li> </ul> <p><b>Till 1<sup>st</sup> April 2024</b></p> <ul style="list-style-type: none"> <li>Agriculture</li> <li>Fisheries</li> <li>Livestock farming</li> </ul> |

## Enhanced Capital Allowance

Enhanced capital allowances are granted to a person (an individual or entity) in addition to the normal depreciation allowance, as given in the below table. This facility is available for persons who make new investments and expansions of existing projects in Sri Lanka.

| Total Investment Made (US\$ Mn.) | Enhanced Capital Allowance (ECA) |                              | Period for Deducting Unrelieved Losses |
|----------------------------------|----------------------------------|------------------------------|--|
|                                  | Northern Province                | Other than Northern Province |  |
| > 3 and ≤ 100                    | 200%                             | 100%                         | 10                                     |
| > 100 and ≤ 1,000                | 200%                             | 150%                         | 10                                     |
| > 1,000                          | 200%                             | 150%                         | 25                                     |

Depreciable Assets:

Class 1: computers and data handling equipment together with peripheral devices.

Class 2: buses and minibuses, goods vehicles, construction and earthmoving equipment, heavy general purpose or specialised trucks, trailers and trailer-mounted containers, plant and machinery used in manufacturing.

Class 3: railroad cars, locomotives, and equipment, vessels, barges, tugs, and similar water transportation equipment, aircraft, specialised public utility plant, equipment, and machinery, office furniture, fixtures and equipment, any depreciable asset not included in another class.

Class 4: buildings, structures and similar works of a permanent nature.

Class 5: intangible assets, excluding goodwill.

Class 6: Milking machines with latest technology, used to manufacture local liquid milk related products.

### Exemption of income tax on Employment Income of expatriates during the ECA:

During the period covered by the ECA, the employment income of the company's expatriate employees is entitled to a 0% rate, where:

- The company has incurred more than US\$ 250 Mn on depreciable assets in Sri Lanka, for the period in which that payment is made, out of profits sheltered by ECA allowance, or for 5 years from the commencement of commercial operations, whichever is higher.
- The number of expatriate employees at any time during that period does not exceed twenty.

## Temporary concessions

Investments below US\$ 3 Mn are entitled to the following temporary ECAs:

| Total Investment Made (US\$ Mn.) | Enhanced Capital Allowance (ECA) |                              | Applicability    |
|----------------------------------|----------------------------------|------------------------------|------------------|
|                                  | Northern Province                | Other than Northern Province |                  |
| < 3                              | 200%                             | 100%                         | Until April 2024 |

Depreciable Assets:

Class 1: Computers and Data handling equipment

Class 4: Buildings and structures and

Plant or machinery that are used to improve business processes or productivity and fixed to the business premises

## Customs Duty / Port & Airport Levy (PAL) / CESS Exemptions

| Exemptions (Type of Tax)       | Export Oriented   |                                       | Non-Export Oriented   |               |
|--------------------------------|---|---------------------------------------|---|---------------|
|                                | Capital Goods   | Raw Materials                         | Capital Goods   | Raw Materials |
| <b>Customs Duty</b>            | Exempted for capital goods (Plant, machinery & equipment) for the life time of the project and construction items during project implementation period (PIP)    | Exempted for life time of the project | Exempted for capital goods (Plant, machinery & equipment) and construction items during project implementation period (PIP)                                     | N/A           |
| <b>Port Airport Levy (PAL)</b> | Exempted for capital goods (Plant, machinery & equipment) and construction items during PIP for enterprises with a capital investment not less than US\$ 50 Mn. | Exempted for life time of the project | Exempted for capital goods (Plant, machinery & equipment) and construction items during PIP for enterprises with a capital investment not less than US\$ 50 Mn. | N/A           |
| <b>CESS</b>                    | Exempted for capital goods (Plant, machinery & equipment) and construction items during PIP for enterprises with US\$ 50 Mn. or above investment.               | Exempted for life time of the project | Exempted for capital goods (Plant, machinery & equipment) and construction items during PIP for enterprises with US\$ 50 Mn. or above investment.               | N/A           |

## Value Added Tax (VAT) Reductions/Exemptions/Deferments

| Exemptions (Type of Tax)   | Within Zones <sup>1</sup>   | EPZs other than under <sup>1</sup> and Outside Zones   |
|----------------------------|---|--|
| <b>Export Oriented</b>     | Exempted <sup>2</sup> for Capital Goods   | Deferred for Capital Goods (Plant, Machinery, Equipment and Construction items) - During project implementation period.<br>Further deferred for Plant, Machinery and Equipment for Life time of the project. |
|                            | Exempted <sup>2</sup> for Capital Goods   | Deferred for Capital Goods (Plant, Machinery, Equipment and Construction items) - During project implementation period.<br>Further deferred for Plant, Machinery and Equipment for Life time of the project. |
| <b>Non-Export Oriented</b> | Deferred for Capital Goods<br>Plant, Machinery, Equipment and Construction items : During project implementation period |  |

<sup>1</sup>Katunayake EPZ, Biyagama EPZ, Koggala EPZ, Kandy IP, Wathupitiwala EPZ, Malwatta EPP, Mirigama EPZ

<sup>2</sup>If the investor intends to get local purchases by registering under SVAT, he may enjoy the deferment facility under Section 22(7) of VAT Act.

Note: All exempted suppliers need to pay VAT at the time of importation. They cannot enjoy either VAT exemption or deferment facility

## Special Incentives granted for Specialized Processing Zones

### Pharmaceutical Manufacturing Zone – Arabokka, Hambantota

Declared as a Strategic Development Project (under the Strategic Development Project Act No. 14 of 2008)

#### Exemption from Corporate Income Tax

| Type of Income   | Tax Concession  | Criteria  | Upon expiry of Concessions                  |
|--|---|---|---|
| Income generated through exports (including deemed exports)  | Tax Holiday : 5 – 10 Years                                | Reckoned from year of profit or<br>2 years from commencement of commercial operations (whichever comes first) | Prevailing CIT applicable for exporters     |
| Income generated through import substitution via local sales | Concessionary CIT applicable for exporters : 5 – 10 years | Reckoned from year of profit or<br>2 years from commencement of commercial operations (whichever comes first) | Prevailing CIT applicable for manufacturers |

### Textile Manufacturing Zone - Eravur, Batticaloa

Declared as a Strategic Development Project (under the Strategic Development Project Act No. 14 of 2008)

#### Exemption from Corporate Income Tax

| Investment (USD Mn) | Minimum Employment | No. of years<br>(The said exemption period shall be reckoned after one and half years (18 months) from the date in which the enterprise executes the agreement with BOI.) |   |
|---------------------|--------------------|---|---|
|                     |                    | Tax holiday   | 50% of CIT Rate Applicable for exporters at that time |
| 10 ≤ inv <15        | 150                | 5   | 2   |
| 15 ≤ inv <20        | 200                | 7   | 2   |
| 20 ≤ inv <25        | 300                | 8   | 3   |
| 25 ≤ inv <30        | 350                | 9   | 4   |
| Inv ≥ 30            | 400                | 10  | 5   |

After the expiry of the aforesaid tax holiday and concessionary period, for the income generated through;

- Exports including deemed exports, the concessionary Corporate Income Tax (CIT) rate applicable for exporters at that time shall be applicable
- Import substitution via other sales to local market, the Corporate Income Tax (CIT) rate applicable for manufacturers at that time shall be applicable

**Deemed exports: sales to companies engaged in manufacturing of apparel for exports.**

#### Exemption from Income Tax for Expatriates

Up to a maximum number of 10 expatriate employees of the enterprise shall be exempted from income tax arising from gains and profits from employment in the enterprise within the zone for a period of 05 years.

## Exemptions under Commercial Hub Regulation No. 1 of 2019

(Gazetted under Finance Act No. 12 of 2012 as amended)

| Eligible Activities  | Minimum Investment (USD Mn)                 | Annual Re-export/ Export turnover (USD Mn) | Location                         |                            |   |                                |
|--|---|--|----------------------------------|----------------------------|---|--------------------------------|
|  |   |  | Free Port (Colombo / Hambantota) | Bonded Area KEPZ/ KGEZ/BIA | Specified Bonded Area (MRIA/ Mirijjawila) | Outside Free Port/ Bonded Area |
| Entrepot Trading<br>- An import, minor processing and re-export<br>- Any manufacturing activity for export as defined in the principle act and established in a Specified Bonded Area. | 5<br>(50% in fixed assets within 12 months) | 20<br>(over a period of 5 years)           | ✓                                | ✓                          | -   | -                              |
|  |   |  | ✓                                | -                          | ✓   | -                              |
| Off-shore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing the same into Sri Lanka                 | 1<br>(40% in fixed assets within 12 months) | 10<br>(over a period of 5 years)           | -                                | -                          | -   | ✓                              |
| Front-end services to clients abroad   |   |  | -                                | -                          | -   | ✓                              |
| Headquarter Operations of leading buyers for the management of the finance supply chain and billing operations   |   |  | -                                | -                          | -   | ✓                              |
| Logistic services such as bonded warehouse or in the case of operation of multi-country consolidation in Sri Lanka   | 3<br>(30% in fixed assets within 12 months) | 15<br>(over period of 5 years)             | ✓                                | ✓                          | -   | -                              |

KEPZ- Katunayake Export Processing Zone, KGEZ- Koggala Export Processing Zone, BIA- Bandaranayake International Airport, MRJA – Mattala Rajapakse International Airport

Note:

- At least 65% of total Investment to be from foreign sources including transfers from any approved Foreign Exchange Account.
- No approval will be granted for logistic services to any re-export business/activities or transshipment related to;
  - Spices and allied products namely pepper, arecanuts, nutmeg, mace, tamarind, cinnamon, clove, ginger, turmeric, and cardamom
  - Waste and /or processing of waste or resource recycling business
- Enterprises referred to the commercial hub regulations are subject to the restrictions and prohibitions imposed in Schedule B to the Customs ordinance.
- If any enterprise established in a specified bonded area, and if more than 65% of the domestic demand for such goods/product is being met out of imports to the country, 40% of the annual re-export turnover (ex-factory value) of the enterprise is allowed for domestic sale for a maximum period of 08 years on annual reconciliation basis. Above concession is limited to; any auto fuels, liquid petroleum gas, propane, butane, and fertilizer or any other goods as approved by the Cabinet of Ministers & subject payment of applicable taxes/ duties on goods released to the local market.
- Any enterprise that fails to reconcile the value of sale to the domestic market during a year with its export turnover on an annual basis, shall be allowed to carry forward that unreconciled value of domestic sales during the initial 4 years from the date of first commercial sale.
- Any goods/product brought for re-export, should not be warehoused or stored for more than 18 months, if stored more than 18 months, will be ordered to send within 30 days from the completion of such 18 months

## Exemptions to the Hub Regulations

- Exemptions from the application of Provisions of the following Acts
  - Customs Ordinance (Chapter 235)
  - Foreign Exchange Act No. 12 of 2017
  - Imports & Exports (Control) Act, No. 1 of 1969,
  - Acts referred to in schedule of Part IV of Finance Act No. 12 of 2012 as amended by Finance Act No. 12 of 2013
    - VAT Act No. 14/2002
    - Export Development Act No. 40/1979
    - Special Commodity Levy Act No. 48/2007
    - PAL Act 18/2011
    - Excise SP Act. No 13/1989
- Supply of any goods to an enterprise engaged in the above eligible activities shall be treated as export thus VAT will be zero rated.
- Exemption from the dividend tax, under the provisions of the Inland Revenue Act No. 24 of 2017.