



# Start up in Sri Lanka

**Initial information**

April 2020

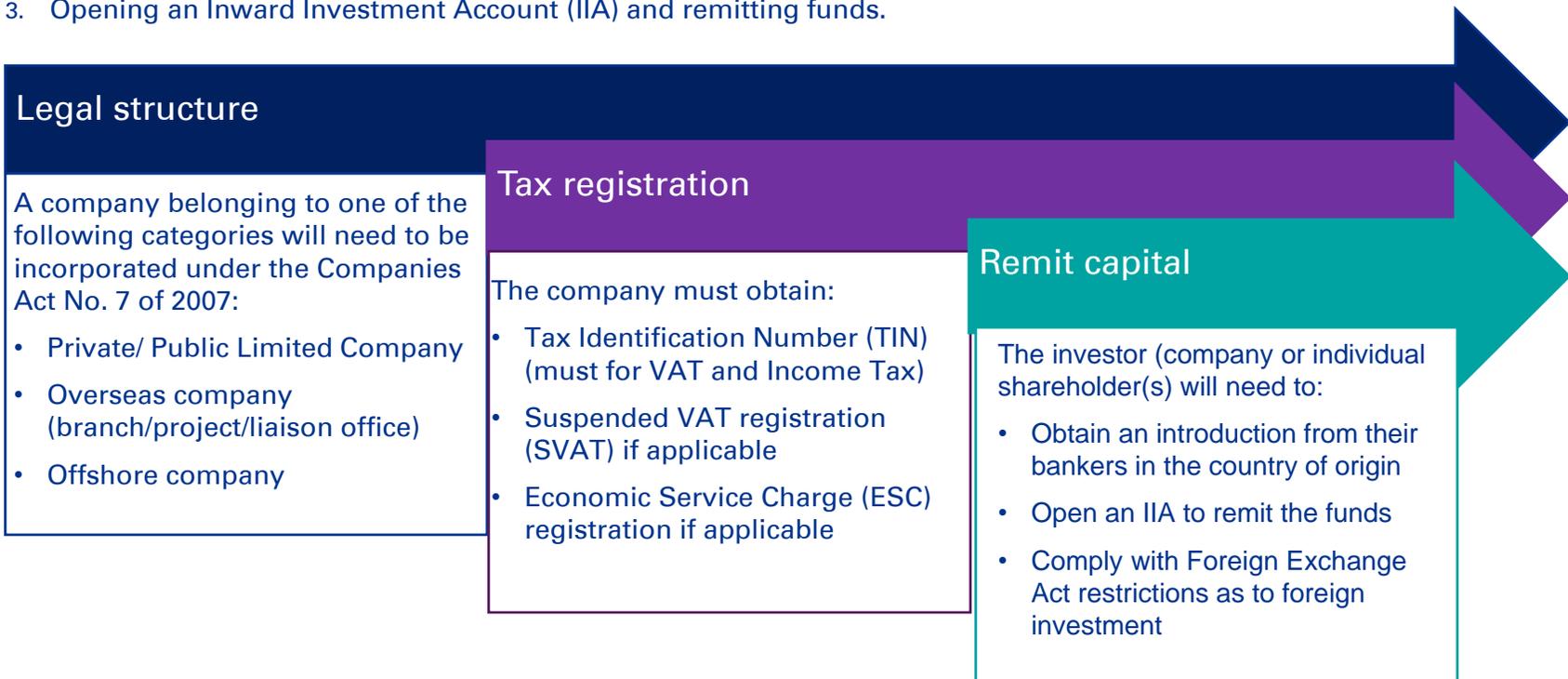
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# Process of setting up

## The three main steps to set up in Sri Lanka:

1. Incorporating a company under the Companies Act No. 7 of 2007
2. Obtaining Tax Identification Number for the company, and any other required tax registrations, depending on the turnover, etc.
3. Opening an Inward Investment Account (IIA) and remitting funds.



# Deciding on the legal structure

### Private/Public Limited Company

- The usual form for a fully owned subsidiary
- Setting up is relatively simple – only one director and one shareholder is required
- The standard Articles of Association (“AoA”) can be used. However, for foreign investors, the AoA must clearly state;
  - The company’s objects, and;
  - The exclusion that the company will not conduct business in industries restricted by the Foreign Exchange Act
- If undertaking retail trade, USD 5 Mn capital must be remitted first
- Longer process to liquidate.

### Overseas Company

- This is the general umbrella under which the following are created:
  - Project offices and Branch offices
  - Liaison and Representative offices
  - Project offices (generally used for construction projects, etc) and Branch offices can conduct business in Sri Lanka. Must remit USD 200,000 as an initial investment which cannot be used for expenses within 30 days of set up
- Liaison and Representative offices cannot conduct revenue generating activities and do not have a minimum capital requirement
- Requires a local representative and a series of documentation.
- Easier to liquidate

### Offshore Company

- Functions as an offshore unit for companies incorporated overseas
- Cannot conduct any business in Sri Lanka.

### BOI and SDP Approval

- Investor can choose to obtain Board of Investment (BOI) approval for customs duty concessions, work permits etc (medium to large investments- minimum USD 250,000)
- For very large and strategically important projects, approval and concessions may be granted Strategic Development Project status

# Limitations on foreign investment

## Foreign investment excluded by the Foreign Exchange Act 2017, in:

- Pawn broking
- Retail trade with a capital of less than USD 5.0 Mn
- Coastal fishing

## 40% investment (or higher percentage approved by Board of Investment):

- Where exports are subject to international quota restrictions
- Growing and primary processing of tea, rubber, coconut, cocoa, rice, sugar and spices
- Mining and primary processing of non renewable national resources
- Timber based industries using local timber;
- Fishing (deep sea fishing)
- Mass communications
- Education
- Freight forwarding
- Travel agencies
- Shipping agencies

## Exchange Control Department will grant permission on a case-by-case basis for foreign investment in:

- Air transportation
- Coastal shipping
- Large scale mechanised mining of gems;
- Manufacturing arms, ammunitions, explosives, military vehicles and equipment, aircraft and other military hardware;
- manufacturing poisons, narcotics, alcohols, dangerous drugs and toxic, hazardous or carcinogenic materials;
- producing currency, coins or security documents;
- Lotteries

## Land (Restrictions on Alienation) Act:

- Private companies with 50% or higher foreign ownership cannot own land in Sri Lanka.
- (exceptions apply only in limited circumstances)
- This has been further amended and foreigners can own condominium property (apartments) from ground floor upwards
- Companies generally take long term leases (up to 99 years) on land and buildings.

# General tax rates

— The general Income Tax rates applicable are as follows:

### Corporate taxes

- Companies (both subsidiaries and branch/project offices) are taxed at the standard rate of 28% (proposed to be revised to 24% effective 1/1/2020). Certain sectors are eligible for exemptions/ concessionary rate of tax of 14%. Betting, gaming, liquor and tobacco sectors are taxed at 40%.
- Capital gains – Taxed at 10%
- Payment of dividends – Withholding tax at 14% (proposed to be removed for residents and exempt for non-residents from 1/1/2020)
- Profit remittance (by branch/project offices or other Permanent Establishments) – Taxed at 14%
- Payment of interest – Withholding tax at 5% (proposed to be removed for residents, and is subject to certain exemptions for non-residents from 1/1/2020)
- Payment of fees for land, sea or air transport, or telecommunication services to non-residents – Withholding tax at 2%
- Other specified payments to residents and non-residents – Withholding tax at 14% (proposed to be removed for residents from 1/1/2020)

### Taxes on individuals

- Individuals are taxed at progressive rates of 4%-24% (with equal slabs of LKR 600,000) – Progressive tax rates have been proposed to be revised to 6% to 18% and the tax slabs to be revised to LKR 3Mn from 1/1/2020
- Concessionary tax rates applicable to specified terminal benefits. Betting, gaming, liquor and tobacco sectors are taxed at 40%.
- Capital gains – Taxed at 10%
- Tax free allowance of LKR 500,000 is granted to residents and non-resident citizens, and an additional LKR 700,000 is granted to resident employees (proposed to be replaced with a tax free allowance of LKR 3Mn for residents and non-resident citizens from 1/1/2020)
- Payment of specified services fees – Withholding tax at 5% (proposed to be removed from 1/1/2020)

# General tax rates

— The general Indirect Tax rates applicable are as follows:

## Indirect taxes

- VAT – Standard rate of 8%
- VAT on financial services – 15%
- VAT certain priority sectors such as exports, tourism (subject to meeting specified conditions) – 0%
- NBT - Standard rate of 2% (proposed to be abolished from 1/12/2019)
- NBT on wholesale/retail business - Effective rate of 1% (proposed to be abolished from 1/12/2019)
- Economic Service Charge – 0.5% (proposed to be abolished from 1/1/2020)
- Share Transaction Levy – 0.3%
- Telecommunication levy – effective tax rate of 11.48%
- Import levies such as Customs Duty, Ports and Airports Development levy, Cess, Excise Duty, Special Commodity Levy – rates depend on the HS Code
- Tourism development levy – 1%

# Investment incentives

## Enhanced Capital Allowances

Enhanced capital allowances are granted for investments into new businesses, in addition to the general capital allowance available.

An enhanced capital allowance of 100% of the expenses incurred by a company on depreciable assets, other than intangible assets, during a year of assessment shall be granted to a person who invests in a new business in Sri Lanka for that year, if the total expenses incurred by such company during that year on depreciable assets (other than intangible assets) that are used in a part of Sri Lanka other than the Northern Province exceeds USD 3 Million but does not exceed USD 100 Million.

An enhanced capital allowance of 150% is granted if above investment exceeds USD 100 million (used in a part of Sri Lanka other than the Northern Province)

An enhanced capital allowance of 200% of the expenses incurred by a person on depreciable assets, other than intangible assets, is granted if investment exceeds USD 3 million where assets are used in the Northern Province.

## Extended period for loss claim

An extended period of 10 years is granted to the company for carrying forward and claiming of unrelieved loss which has been created as a result of claiming the enhanced capital allowance

# Strategic Development Projects (1/2)

- A project is considered as a Strategic Development Project (SDP) on the ground that it is in the national interest and such project is likely to bring economic and social benefit to the country and is also likely to change the landscape of the country, primarily through—
  - a) the strategic importance attached to the proposed provision of goods and services, which will be of benefit to the public ;
  - b) the substantial inflow of foreign exchange to the country ;
  - c) the substantial employment which will be generated and the enhancement of the income earning opportunities ; and
  - d) the envisaged transformation in terms of technology
- The Board of Investment Sri Lanka (BOI) acts as the facilitator of SDPs with the concurrence of the Ministry of Finance and Planning.
- The project proposal for the SDP should be submitted to the BOI directly by the investor.
- Investment proposal for government lands and property are scrutinized by Stranded Cabinet Appointed Review Committee on the recommendation of the line Ministry.
- BOI will carry out the necessary analysis of the project along with the line Ministry, with the concurrence of the Ministry of Finance and Planning.
- The Cabinet approval will be granted for the recognition of the project and for the approval of the Parliament
- Any investment capable of altering the economic landscape of Sri Lanka which would fall under SDPs are considered to obtain tax exemptions under the provisions of the Strategic Development Projects Act No. 14 of 2008 as amended by the Strategic Development Projects (Amendment) Act No. 12 of 2011.
- Strategic Development Projects Act covers full or partial exemptions (depending on the type and the level of investment) of the following taxes.
  - a) Value Added Tax (VAT)
  - b) Income Tax
  - c) Economic Service Charge (ESC)
  - d) Customs Duty
  - e) Excise Duty
  - f) Nation Building Tax (NBT)
  - g) Ports and Airports Development Levy (PAL)
  - h) Taxes under the Finance Acts

# Strategic Development Projects (2/2)

• The following are the key strategic development projects that have been implemented in Sri Lanka

Key Strategic Development Projects	Investment (Approx)
Shangri-La Hotels Lanka (Pvt) Ltd (Colombo)	USD 1.40 Bn
Hambantota Port	USD 1.12 Bn
Shangri-La Hotels Lanka (Pvt) Ltd -Colombo	USD 0.40 Bn
Shangri-La investment Lanka (Pvt) Ltd – Hambantota	USD 0.80 Bn
Welcome hotels Lanka (Pvt) Ltd – Colombo (ITC)	USD 0.30 Bn
Sinolanka Hotel & Spa – Colombo with Hyatt Regencies	USD 0.08 Bn

The government of Sri Lanka has not imposed a minimum capital requirement for the projects seeking SDP status, however the minimum capital requirement is decided on a case by case basis.



**Shiluka Goonewardene**  
*Principal, Deal Advisory*  
KPMG Sri Lanka  
Tel: +94 77 7732 778  
[sgoonewardene@kpmg.com](mailto:sgoonewardene@kpmg.com)

**Nipuni R. Samarasekara**  
*Director*  
KPMG Corporate Services (Pvt) Ltd  
Tel: +94 76 359 6185  
[nsamarasekara@kpmg.com](mailto:nsamarasekara@kpmg.com)



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