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2025 BUDGET AT A GLANCE

NIHAL HETTIARACHCHI & COMPANY
WIJEYERATNE & COMPANY



17th February, 2025

Dear Valued Stakeholder,

BUDGET AT A GLANCE - 2025

His Excellency the President, Hon. Anura Kumara Dissanayake, presented the 2025 Budget to Parliament on 17th February 2025, in his capacity as the Minister of Finance.

The Government's economic policy objectives will focus on three key facets of the supply side such as Growth in Production, Active Participation of the people and Equitable Distribution. In addition to the supply-side focus, the Government's policy objectives on the demand side for goods and services are centered on ensuring uninterrupted supply, fair pricing and maintaining an acceptable level of quality. By focusing on these aspects, the Government aims to create a balanced and sustainable economic environment where both producers and consumers benefit equitably.

Bearing in mind our clients and the convenience of processing a budget summary, we have compiled a memorandum contained herein, on the highlights of the technical taxation notes of the aforesaid 2025 budget proposals. This document focuses on the main areas addressed and does not include tax reforms previously announced in Parliament in December 2024 which included increase in the tax-free threshold for personal income tax, further adjustments to the second income tax slab, removal of VAT on fresh milk and yogurt, cancellation of the Imputed Rental Income Tax planned by the previous administration etc.

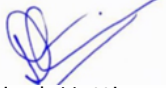
This memorandum is prepared in summary form and should not be used as a substitute to detailed advice given by our firm. The proposals may be subject to changes at the time of legislations are enacted. Therefore, any conclusion should be arrived at only after due consultations and professional advice.

We hope this will serve its purpose by acting as a useful reference guide of the 2025 budget.


This publication is also available in our website www.nh-co.lk.

Thanking you,

Yours faithfully,



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01. INCOME TAX

Tax Return Submission

- The obligation to file the Statement of Estimated Tax Payable will be abolished, effective from the Year of Assessment 2025/2026.
- Senior citizens will be permitted to submit their income tax returns manually with effect from the Year of Assessment 2024/2025.

Calculation of Installments Payable

- New provisions will be introduced to determine each tax installment for a given year of assessment based on the income tax payable for the preceding year.

Withholding Tax

- Any payments received by a non-resident for aircraft, software licenses, or related services provided to the Sri Lanka Air Force will be exempt from taxation.
- Senior citizens with a total assessable income not exceeding Rs. 1,800,000 per year will be exempt from withholding tax on interest earned from deposits, provided they submit a declaration confirming their income to the financial institution.
- Individuals, excluding senior citizens, with a total assessable income not exceeding Rs. 1,800,000 per year will be eligible for a refund of withholding tax deducted on interest, under the existing refund scheme available to senior citizens.

Life Insurance Proceeds and Other Amounts

- The Act will be amended to clarify the income tax implications on life insurance proceeds and other amounts received by policyholders.

Capital Gain Tax (CGT)

- The current tax provisions under Section 46 of the Inland Revenue Act, which govern the transfer of ownership of assets to an individual's associate or a charitable institution, will be extended to cover transfers of assets to the Sri Lankan Government or to universities established or deemed to be established under the Universities Act, No. 16 of 1978.
- The Capital Gains Tax rate for individuals and partnerships will be increased to 15%, while the rate for all other entities will be raised to 30%, aligning with the corporate capital gains tax rate.

Interest on Late Payments

- The Commissioner General of Inland Revenue (CGIR) will be empowered to waive interest imposed under the Inland Revenue Act, No. 24 of 2017, and the Surcharge Tax Act, No. 14 of 2022, provided that:
 - The tax liability pertains to the Year of Assessment 2022/2023 or any earlier year, and
 - The full tax amount is paid within six months following the statutory amendment.

01. INCOME TAX (CONTINUED)

Tax Residency Status

- The tax resident rules will be revised to include the following provisions:
 - i. A holder of a Golden Paradise Resident visa will be considered a non-resident for income tax purposes;
 - ii. An individual deemed a resident for income tax purposes solely due to employment on a Sri Lanka-flagged vessel will be treated as a resident during the period of such employment;
 - iii. An individual who is a citizen or subject of a country other than Sri Lanka, but deemed a resident in Sri Lanka due to employment on a Sri Lanka-flagged vessel, will not be liable for income tax as a resident on any income not sourced in Sri Lanka, except for income from employment on such vessel.

02. VALUE ADDED TAX

Exemptions

- The import of packing materials used for packaging pharmaceuticals or Ayurvedic medicines manufactured in Sri Lanka, and imported by the manufacturer of such products, will be exempt from VAT, provided the packing materials are not manufactured in Sri Lanka and are approved by the Secretary to the Ministry of Health or the Commissioner of the Department of Ayurveda.

VAT on Digital Services

- Regulations will be issued outlining the procedures for registration, charging, collection, filing returns, and other matters related to the imposition of VAT on services provided through digital platforms.

Simplified Value Added Tax (SVAT) & VAT Refunds

- Amendments related to the removal of the SVAT system and the facilitation of the refund process will be included in the VAT Act.
- The Simplified Value Added Tax (SVAT) system will be replaced with a risk-based refund system. To ensure the effective implementation of the new system, a pilot project will be launched to process refunds through the RAMIS, in accordance with the conditions outlined in the Risk-Based Refund Scheme, as specified by the Commissioner General of Inland Revenue through a gazette notification.

Calculation of Value of Supply

- The entertainment tax charged by local authorities will be deductible when determining the value of the supply of film exhibition services.

VAT Arrears

- Value Added Tax arrears, as per the records of the Commissioner General of Inland Revenue, for projects undertaken by construction contractors involved in Tsunami Projects, will be written off.

02. VALUE ADDED TAX (CONTINUED)

Input VAT Claim

- Input tax deductions on capital goods such as machinery, equipment, or vehicles imported for projects where the VAT at the time of import is deferred will be disallowed.

Use of POS Machines

- The use of Point of Sale (POS) machines will become mandatory for VAT-registered persons and will be fully operationalized.

03. SOCIAL SECURITY CONTRIBUTION LEVY

Exemptions

- The exemption provided for the articles specified under Item 4 of Part 1B of the First Schedule of the SSCL Act will be clarified to encompass both wholesale and retail sales of such articles.
- The exemption under Item 24 of Part 1A of the First Schedule to the SSCL Act will be granted for machinery or equipment imported or locally purchased for the purpose of generating electricity by any institution that has entered into an agreement with the Ceylon Electricity Board (CEB) prior to February 18, 2025.

Transportation

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

04. TAX APPEAL COMMISSION

Fees & Charges

- The fee for stating a case on a question of law for the opinion of the Court of Appeal will be increased to Rs. 10,000/-.
- The fee for making an appeal to the Tax Appeals Commission (TAC) will be increased to Rs. 15,000/-, as per a Gazette Notification issued under Section 8 of the Tax Appeals Commission Act.

Mandatory Bank Guarantee Transfer

- Provisions will be incorporated to mandate the transfer of the bank guarantee to the Commissioner General of Inland Revenue (CGIR), regardless of the appellant's decision to appeal to the Court of Appeal.

Cash Deposit Requirement for Appeals

- An appeal to the Tax Appeals Commission will not be permitted unless a cash deposit of 25% of the disputed tax, penalty, and interest is made into a special account opened by the CGIR.

05. TAX APPEAL COMMISSION (CONTINUED)

Appeal Hearing

- An appeal to the TAC will only be permitted if a request for administrative review has been made first, and a decision has been received from the CGIR, or if the request for administrative review is deemed to have been disallowed.
- The submission of any evidence not previously presented to the CGIR during the assessment or administrative review process, as well as raising new issues that were not addressed or disputed during these processes, will not be permitted during the appeal hearing.
- Relevant legal provisions will be introduced to facilitate settlements between the CGIR and the appellant, under the supervision of the Commission, in appropriate cases during the appeal hearing.

Term of the Office Bearers

- The term of office for members of the panel of Legal Advisers to the Commission will be aligned with the term of office of the Commission members, and the panel members will be eligible for reappointment.
- The term of office for members of the Commission will be extended from 3 years to 5 years, starting from the date of appointment.

05. OTHERS

05.01. STAMP DUTY

Effective from 01.03.2025, the Stamp Duty on any instrument relating to the lease or hire of property will increase from Rs. 10 to Rs. 20 for every Rs. 1,000 or part thereof of the total lease or hire amount, including any premium payable for the entire term of the lease or hire agreement (excluding hire purchase agreements). This change will raise the current Stamp Duty rate from 1% to 2%.

05.02. BETTING AND GAMING LEVY

- The Gross Collection Levy will be raised to 18%.
- The Casino Entrance Levy will be increased from USD 50 to USD 100.

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