



## Sri Lanka

### Introduction

Residents are taxed on worldwide income, whereas nonresidents are taxed on income arising or derived from Sri Lanka.

#### Tax exemption for noncitizens

The extent of an individual's liability for Sri Lankan tax on the individual's earnings depends on the individual's residence status in Sri Lanka. Profits and income derived from outside Sri Lanka by a dual citizen or a noncitizen employed in Sri Lanka will be exempt from income tax in Sri Lanka.

The maximum rate of tax in Sri Lanka is currently 35 percent, but would be reduced to 24 percent effective from year of assessment 2011/12 (i.e., April 1, 2011).

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### Key messages

Chargeability of income tax in Sri Lanka on expatriate employees is limited to Sri Lanka-source income.

## Income tax

### Liability for income tax

A person's liability for Sri Lankan tax is determined by residency status. An individual who is physically present in Sri Lanka for 183 days or more during any year of assessment is deemed to be resident in Sri Lanka throughout that year of assessment. An individual who has been deemed resident for two or more consecutive years of assessments is deemed to be resident until such time as the individual is continuously absent from Sri Lanka for an unbroken period of 365 days. (Visits to Sri Lanka for periods not exceeding 30 days in total during this period are ignored.) When a person is absent in the way described, that person will be deemed to be a nonresident from the beginning of the year of assessment in which the absence commenced.

Residents are assessable on their worldwide income, whereas nonresidents are liable only on their income arising in or derived from Sri Lanka. A noncitizen employed in Sri Lanka is also exempt from income tax on income arising in/derived from outside Sri Lanka.

Commencing April 1, 2009, foreign currency earned by a resident individual for any service rendered to a person outside Sri Lanka – whether the service itself was performed in or outside of Sri Lanka – is exempt from income tax.

Effective April 1, 2009, any profits earned in foreign currency from employment under any "qualified person" (relevant profits) and included in the taxable income of a "qualified individual" would be taxable at a maximum of 20 percent.

### Definition of source

Employment income is generally treated as Sri Lankan – sourced compensation where the individual performs the services while physically located in Sri Lanka.

### Tax trigger points

Technically, there is no threshold/minimum number of days that exempts the employee from the requirements to file and pay tax in Sri Lanka. To the extent that the individual qualifies for relief in terms of the dependent personal services article of the applicable double tax treaty, there will be no tax liability.

Tax rates for residents and nonresidents are the same.

### Types of taxable income

In general, all remuneration and benefits received by an employee who is resident in Sri Lanka or for services rendered in Sri Lanka are taxable. Taxable remuneration and benefits includes salary, bonuses, commissions, accommodation allowances, education allowances for children, employer-provided domestic assistance, and contributions to medical, dental sickness, and disability plans.

### Tax rates

Effective April 1, 2011, net taxable income is taxed based on progressive income tax rates ranging from 4 percent to 24 percent. The proposal widens the slabs and reduces income liable for tax at the higher rates significantly.

## Social security

### Liability for social security

The Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF) provide superannuation benefits to employees. Both employers and employees are required to contribute to the EPF. Employees are not required to contribute to the ETF.

The regulations regarding the EPF, which provides for the payment of superannuation benefits to employees, prescribes that employers make a minimum contribution of 12 percent of an employee's total earnings into the EPF. Employees are also required to contribute a minimum of 8 percent of their total earnings into the EPF. The EPF contribution rules, however, may not apply to expatriate employees who are employed in a managerial, executive, or technical employment and who are members of a pension scheme or any other fund or scheme established or administered outside Sri Lanka.

The regulations for the ETF, which also provides for the payment of superannuation benefits to employees, require employers (but not employees) to contribute 3 percent of their employees' total earnings to the fund. This requirement, if applicable, may be waived for an employer with regard to its expatriate employees if such expatriates contribute towards a foreign superannuation fund and do not contribute towards a provident fund in Sri Lanka.

## Compliance obligations

### Employee compliance obligations

Tax returns are due by November 30 following the tax year-end, which is March 31.

The requirement to file tax returns would be withdrawn on individuals if the individual's income consists solely of one or more of the following income sources and tax from each has been deducted at the source:

- Employment
- Dividend
- Interest

If an employee is not within the Pay-As-You-Earn (PAYE) scheme, tax payments can be made in quarterly installments on a self-assessment basis.

### Employer reporting and withholding requirements

Under the PAYE scheme, every employer is required to withhold income tax from the remuneration paid to its employees. Annual returns of employee income and taxes paid in the tax year to March 31 must be filed with the Department of Inland Revenue (DIR) on or before April 30 of that year.

## Other

### Work permit/visa requirements

A visa must be applied for before the individual enters Sri Lanka. The type of visa required will depend on the purpose of the individual's entry into Sri Lanka.

### Double taxation treaties

Sri Lanka has entered into double taxation treaties with 36 countries. A foreign tax credit is available where Sri Lanka taxes foreign-sourced income if it is provided for in the relevant double tax treaty. In the absence of a treaty, income net of tax is subject to Sri Lankan tax.

### Permanent establishment implications

There is the potential that a permanent establishment could be created as a result of extended business travel, but this would be dependent on the type of services performed and the level of authority the employee has.

### Indirect taxes

There are two tiers of value-added tax (VAT) rates. VAT is levied on the importation of goods into Sri Lanka and the making of taxable supplies in the course of carrying out a taxable activity. The VAT rate levied would be at the standard rate of 12 percent or 0 percent, depending on the nature of the taxable supply.

### Transfer pricing

Sri Lanka has a transfer pricing regime; Sri Lanka's transfer pricing regulations, however, do not cover employment benefits.

### Local data privacy requirements

Sri Lanka does not currently have data privacy laws.

### Exchange control

The Exchange Control Act specifies that foreign personnel engaged in contracts with the government or private organizations in Sri Lanka are permitted to maintain resident current accounts that may be credited with inward remittance and payments made on such contracts. It has also been the practice to permit expatriate employee earnings to be remitted offshore without exchange control permission or restriction.

### Nondeductible costs for assignees

Nondeductible costs for both an assignee and an employer will include contributions by an employer to pension funds that are not approved by the Commissioner General of Inland Revenue and insurance premiums paid for policies issued outside Sri Lanka.

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