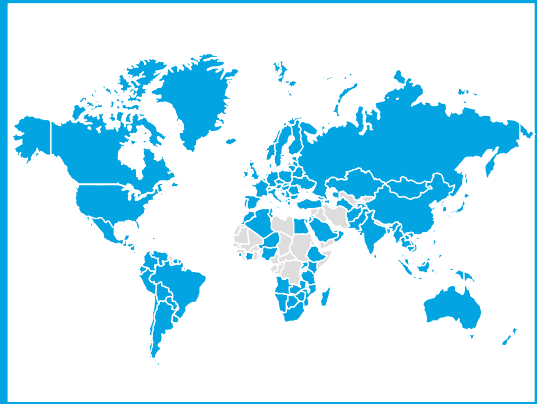


EXPATRIATES

Sri Lanka

Tax facts for international assignees



INCOME TAX: WHO IS LIABLE/RESIDENCY

Expats may come within the local Tax framework on their employment income by two means.

Pay As You Earn (PAYE) and Advance Personal Income Tax (APIT)

Until 31st December 2019, remuneration of employees who were either non-resident non-citizens or resident non-citizens of Sri Lanka were liable for PAYE and the applicable PAYE was *mandatorily* withheld and remitted to the Inland Revenue Department (IRD) by the employer from the monthly remuneration. Where a withholding agent failed to withhold tax from a payment as required, the withholder was jointly and severally liable with the withholding agent for the payment of the tax to the Commissioner-General, and the tax had to be paid by the withholder within 15 days after the end of the calendar month in which the payment was received.

With the proposed changes to the Inland Revenue Act No. 24 of 2017 (IRA), employers shall continue to *mandatorily* withhold and remit to the IRD from non-resident expat employees' employment profits an APIT as per the APIT tables.

Whereas, if such expat is a resident, then with effect from 1st January 2020 till 31st March 2020 the expat was allowed to *opt* to compute the Self-Assessment tax payments individually based on the expat's Cumulative Income or authorize the employer to compute the APIT in accordance with the APIT tables on Cumulative Income from Employment and remit to the IRD. Effective 1st April 2020 the employer *may* withhold, with *consent* from a resident expat, tax as per the APIT Tables and remit to the IRD from the expat's employment profits. The deduction to tax under the APIT is *mandatory* with regard to non-resident employees.

Residency in Sri Lanka of such an expatriate is confirmed if such expatriate resided in Sri Lanka or was present in Sri Lanka for a period in aggregate exceeding 183 days during any twelve-month period.

Withholding Tax on Service fees

If the expat is not an employee and performs functions as an independent contractor, then despite the citizenship, if the expat is either a:

a) Resident Individual

The Expat shall have to obtain a tax registration and estimate at the beginning of each Year of Assessment, the Taxable Income generated from sources in Sri Lanka and the Annual Tax payable and pay the same on a Quarterly basis after filing a Statement of Estimated Income Tax Payable ("SET").

b) Non-resident Individual

The Expat shall be subjected to a Withholding Tax by the Withholding Agent on any Service Fee received which has a source in Sri Lanka at the rates provided in the IRA (subject to treaty provisions).

Receipts which have a source in Sri Lanka have been listed out in Section 73 of the IRA which includes payments received in respect of employment, technical service fee, or similar payment etc..

Tax Reliefs

Tax reliefs were revised with changes proposed to the IRA. During the (Y/A) 2019/2020 the tax-free allowance was limited to Rs. 375,000 and employment relief to Rs. 525,000 for the period 1st April to 31st December 2019 and a total of relief Rs. 750,000 for the period 1st January to 31st March 2020. According to the proposal, in every future Year of Assessment, all residents and citizens are eligible for a Rs. 3,000,000 personal relief on the profits and income sourced from Sri Lanka.

Tax Compliance Due Dates

APIT scheme (with effect from 1st April 2020)

If the employee has consented to the tax deduction at source, the tax deducted from the employee must be paid by the employer on or before the 15th of the month immediately succeeding the end of that relevant month.

If consent is not granted to compute APIT, employees pay Quarterly Self Assessment payments based on the Statement of Estimated Income Tax Payable (SET) submitted.

- The Employer must furnish on or before 30th April each year an Annual Statement with the APIT details of the immediately preceding (Y/A). Individuals must furnish on or before 15th August of the current Y/A, SET for the current (Y/A) and an Individual Income Tax Return on or before 30th November for the immediately preceding (Y/A).
- The Employer must issue certificates of deduction to employees before 30th of April in respect of the (Y/A) ending on 31st March.

Record Keeping Requirements

An employer must maintain proper records and pay sheets in the prescribed form in respect of each employee liable to tax.

Tax Treaties

If the person under consideration is a resident of a Country with which Sri Lanka has entered into a Double Tax Avoidance Agreement (DTAA), then the residency and applicable Tax Rates shall be determined as per the said provisions of the DTAA.

INCOME TAX RATES

Year of Assessment 2020/2021 onwards

Income (LKR)	Tax rate
First 3,000,000	Exempt*
Next 3,000,000	6%
Next 3,000,000	12%
Balance	18%

*For residents and citizens only

For further information and to register for future updates contact expat@bdo.global

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations. The information contained within this publication is based upon information available up to the version date indicated in the document footer and is accurate only as of such version date. While every reasonable effort has been taken by BDO to ensure the completeness and accuracy of the matter contained in this publication, the information contained herein does not constitute an examination of any recipient's compliance with laws, regulations, or other matters. You should not act, or refrain from acting, upon the information contained herein without obtaining specific professional advice. Please contact the appropriate BDO Member Firm to discuss these matters in the context of your particular circumstances. Neither the BDO network, nor the BDO Member Firms or their partners, employees or agents accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

BDO is an international network of public accounting, tax and advisory firms, the BDO Member Firms, which perform professional services under the name of BDO. Each BDO Member Firm is a member of BDO International Limited, a UK company limited by guarantee that is the governing entity of the international BDO network. Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium. Each of BDO International Limited, Brussels Worldwide Services BVBA and the member firms of the BDO network is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA and/or the member firms of the BDO network.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

© Brussels Worldwide Services BV, December 2020

www.bdo.global