

## Government OF SRI LANKA

# TAX EXEMPTIONS AND INCENTIVES - BUDGET PROPOSALS 2002 & 2003

The under-noted tax exemptions and incentives are available consequent upon the Government's proposals contained in the Budget of 2002 and 2003. This publication is made in order to enable investors to become aware of the benefits available, and also to note the time-limits applicable to the making of their investments to qualify for the exemptions.

Certain of such exemptions are available under both the Inland Revenue Act (IR Act) and the BOI Law, although the criteria to qualify may be different, as set out below.

For the purpose of these exemptions

- "non –traditional goods for export" means any goods other than black tea in bulk, crepe rubber, sheet rubber, scrap rubber, latex and fresh coconuts.(with effect from 01.04.2003)
- The tax holiday period will commence from the first year in which profits are made, or two years from the year of commencement of commercial operations whichever is earlier However, in the case of the expansion of an existing undertaking the exemption will commence from the year of commencement of commercial operations; and in relation to the rehabilitation of sick industries either from the expiry of the existing tax holiday (if any), or from the year of commencement of commercial operations.
- Where the tax holiday company is engaged in other businesses or activities as well, the tax holiday and post tax holiday concessions will be applicable only to profits and income arising from the exempt activity or undertaking.
- To qualify for BOI concessions an agreement will have to be signed with the Board of Investment of Sri Lanka.
- Dividends paid by any company entitled to these exemptions would be subject to the provisions of section 11(f) of the IR Act.
- "Deemed Exports" means the supply of manufactured goods to any exporter for use in the export of non-traditional goods.

	<b>Type of Industry</b>	<b>Criteria to qualify</b>	<b>BOI Incentive</b>	<b>IRA Incentive</b>
1.	Export of non- traditional goods, including deemed exports by a company	Exports of 80% or more of production. including deemed exports. BOI -Minimum investment Rs.15 mn. . IR Act No investment limit if a new company ; Minimum investment of Rs. 2.5 mn if an existing company in a new project	05 years tax holiday; at 10% in 6 <sup>th</sup> and 7 <sup>th</sup> years; at15% thereafter.	Under Section 21A (2) (a) (as amended) Same as for BOI Effective 01.04.2002

2.	Expansion of undertakings referred to above (existing companies only)	BOI – Minimum investment of Rs.50 mn . IR Act Rs.10 to 100 mn Investment to be completed by 31.03.2004 in both cases.	02 year tax holiday; at 15% thereafter.	Section 21F (New Section) Same as for BOI Effective – 01.10.2002
3.	Agriculture, including the rearing or processing of fish: and agro-processing by a company  BOI will consider "deep sea fishing" as well	BOI – Minimum investment of Rs.1 mn. IR Act No investment limit if a new company. Minimum investment of Rs.2.5 mn if an existing company in a new project	05 year tax holiday; at 10% in 6 <sup>th</sup> and 7 <sup>th</sup> years; at 15% thereafter.	Section 21A (2) (a) (as amended ) Same as for BOI Effective 01.04.2002
4.	Manufacture of Industrial & machine tools by a company. (Electronic products and Information Technology and allied services will also be considered under the IR Act)	BOI – Minimum investment of Rs. 15mn. IR Act No investment limit if a new company. Minimum investment of Rs. 2.5 mn if an existing company in a new project	05 year tax holiday; at 10% for 6 <sup>th</sup> and 7 <sup>th</sup> years; at 20% thereafter.	Section 21A (2) (a) (as amended) Same as for BOI Effective – 01.04.2002
5.	Small scale infrastructure by a company - (Power generation, Tourism and Recreation, Warehousing and cold storage, garbage collection and/or disposal, construction of houses and construction of hospitals)	BOI – Minimum investment of Rs. 50 mn IR Act – Minimum investment of Rs. 10 mn within one year of commencement of undertaking (Maximum Rs. 50 mn.	05 year tax holiday; at 10% for 6 <sup>th</sup> and 7 <sup>th</sup> years; at 20% thereafter.	Section 21C (New Section) Same as for BOI Effective – 01.04.2002
6.	Large Scale infrastructure by a company – (Power generation, transmission and distribution, Development of highways, seaports, airports, rail transport, water services and other infrastructure projects including establishment of industrial estates)	Both BOI and IR Act Minimum Investment Rs. 1,000 mn - Rs. 2,500 mn - Rs. 5,000 mn - Rs. 7,500 mn -	06 year tax holiday; 08 year tax holiday; 10 year tax holiday; 12 year tax holiday; at 15% thereafter.	Section 21B (as amended) Same as for BOI  Effective 01.04.2002

7.	Acquisition by a company for Rehabilitation of non performing or under performing industries	BOI – Minimum investment of Rs. 1 mn. IR Act Minimum investment dependent on the proposal  Subject to the approval of proposal and cover for statutory liabilities.  Rehabilitations should be completed by 31.03.2004	03 year tax holiday; at 15% or 20% thereafter depending on the activity.	Section 21E (New section) Same as for BOI Effective 01.04.2003
8.	New undertaking engaged in Research and Development (as specified)	BOI – Minimum investment of Rs. 5 mn. IR Act Minimum investment of Rs.2 mn (Specified Research Activities only)	05 year tax holiday; at 15% thereafter.	Section 21D (New Section) Same as for BOI Effective 01.04.2003
9.	Expansion or manufacturing (other than non traditional items) by an existing company only.	BOI – no relief IR Act Minimum investment of Rs. 10 mn  Expansion to be completed by 31.03.2004.	Not Applicable	Section 21G (New Section) 02 Year tax holiday on incremental profits Effective – 01.04.2003
10	Venture Capital companies that meet with laid down criteria	BOI – no relief IR Act – minimum share capital of Rs.100 mn being achieved after 01.04.2003. Available until 01.04.2008	None	Section 21H (New Section) 05 year tax holiday from date of achieving the Rs.100 million Effective 01.04.2003

11.	Designated projects – Manufacture of ceramics, glassware or other mineral based products, rubber based products; provision of refrigerated transport or cold room storage services; management of any off shore company; or maintaining a back office in relation to any activity in a foreign country; products of any Export Production Villages;	BOI – None IR Act - no investment limit if a new company Minimum investment of Rs. 2.5. mn. if an existing company other than for any Export Production Village	Not applicable	Section 21A (2) (b) (as amended) 05 year tax holiday at 10% for 6 <sup>th</sup> and 7 <sup>th</sup> year at 15% or 20% thereafter depending on the activity  Effective – 01.04.2002
12.	Export Trading Houses; Export of the entirety of locally procured manufactured goods or imported goods; . a warehouse within a BOI Zone.	BOI only Export Value US\$ 5 to 10 mn - US\$10 to 25 mn - Over US\$25mn -	at 10% for 5 years ; at 5% for 5 years ; Tax holiday for 5 years; at 15% thereafter	Not applicable
13.	Regional operating headquarters for managing 2 or more off shore companies Provision of specified services	BOI only. Provision of specific services	03 year tax holiday at 10% for 4 <sup>th</sup> and 5 <sup>th</sup> year. at 20% thereafter	Not applicable
14.	Information technology or enabled services or related training institutes	BOI only Minimum 15 technical staff for IT/IT enabled services and 300 students per year for IT training institutes.	03 year tax holiday at 10% for 4 <sup>th</sup> and 5 <sup>th</sup> years at 20% thereafter	Not applicable
15.	Any undertaking with an investment of not less than Rs.250 mn. within guidelines prescribed by the Minister of Finance (In case of BOI the Minister of Enterprise Development)	Both BOI and IR Act Minimum investment of Rs.250 mn.	05 year tax holiday at 10% for 6 <sup>th</sup> & 7 <sup>th</sup> years at 15% or 20% thereafter depending on the activity.	Section 21A (2) (b) (as amended)  Same as far BOI  Effective - 01.04.2002

Date:

Secretary  
Ministry of Finance

