

Country Guide

Sri Lanka

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Guide To Doing Business Questionnaire: Member Firms Outside the USA

I. The Country At A Glance

A. What languages are spoken?

The national languages of Sri Lanka are Sinhala and Tamil. English is commonly used as the link language.

B. What is the exchange rate for the U.S. dollar, the Euro?

As at 16th August 2019:

Currency	Selling rate	Buying rate
Euro	199.7363	193.2019
US Dollar	178.7981	175.1447

C. Describe your country's geography, proximity to other countries and climate.

Geography - Sri Lanka is an island in the Indian Ocean consisting of a total area of 65,610 km² of which 64,740km² is land, 870km² is water and it is surrounded by a coastline which is 1340km long. Due to the Island's location in the Indian Ocean interconnecting with the major air and sea routes between Europe and the Far East, there is a strategic advantage as a global logistic hub. The topographic features of Sri Lanka are the Central Highlands, the plains and the coastal belt. Sri Lanka is rich in natural resources which include limestone, graphite, mineral sands, gems, phosphates and clay.

Proximity - The closest country to Sri Lanka is India. The Palk Strait between the Tamil Nadu state of India and the Mannar District of the Northern Province of Sri Lanka is 35.41km wide. Maldives is the only other neighboring country which comprises of a group of islands located in the Indian Ocean and is 983km away from Sri Lanka.

Climate - Sri Lanka is a tropical country and is distinctive of both dry and wet seasons (monsoons). The average temperature ranges from about 280C to 320C. Sri Lanka's climate includes tropical monsoons; the north-east monsoon (December to March), and the south-west monsoon (June to October).

D. Are there cultural influences or prohibitions on the way business is conducted?

E. Are there religious influences or prohibitions on the way business is conducted?

Sri Lanka is a multi-religious and a multi-ethnic country. The main religion practiced in Sri Lanka is Theravada Buddhism and among the Sri Lankan population, approximately 70% are Buddhist. The other major religions practiced in Sri Lanka are Hinduism, Islam and

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Roman Catholicism. The majority ethnic group in Sri Lanka is Sinhalese and includes 74.9% of the population.

Being a multicultural and multinational country, Sri Lanka is comprised of diverse traditions, values and beliefs. Therefore, it is important to be aware of both the opportunities and threats that may arise for business and also the social and cultural values that should be upheld through business activities. Sri Lanka is home to many world heritage sites including Sigiriya, Anuradhapura and other places of historical and religious importance. These provide various business opportunities. For example: Foreigners come to watch the annual Kandy Perahara and this creates a significant boost for businesses such as hotels.

There are not many cultural and religious restrictions placed on businesses in Sri Lanka. However, there are a few minor restrictions such as the prohibition of the sale of alcohol and meat on Poya days (being the full moon day in each calendar month).

- F. Explain your country's infrastructure. Be sure to explain which cities have airports, systems, ports, and public transportation.

Airports

Sri Lanka has two main international airports. Bandaranaike International Airport (airport code CMB) and Mattala Rajapakse International Airport. The Bandaranaike International Airport is located 30 kilometers north of the island nation's capital of Colombo in Katunayake. The second international airport, Mattala Rajapakse International Airport, is placed in the deep south of the country close to the fast-developing coastal town of Hambantota. This airport is a gateway to the Eastern Province of Sri Lanka. There are also domestic airports in Rathmalana (15Km from Colombo) (which is the main hub for both military and commercial transport) Palali (in the Jaffna Peninsula) and Koggala (27Km from Galle).

Ports

The Sri Lankan Port Authority (SLPA) is the state-owned operator of the major commercial ports in Sri Lanka and the main ports are found to be in Colombo, Galle, Hambantota, Point Pedro, Kankesanthurai, Trincomalee and Olivil.

Public Transportation

A nationwide network of buses in Sri Lanka comprising of 'public' or 'peoples' or worker owned buses referred to as SLTB (Sri Lanka Transport Board) buses, wholly government owned buses. A network of privately owned buses complements this network of government-run buses. Public bus transport in Sri Lanka ranks as one of the cheapest in the world.

Railways

There are also four main rail lines in Sri Lanka covering all major towns and important tourist attractions across the country. Sri Lanka also has an air taxi service which offers flights between Bandaranaike International Airport and certain specified locations.

Taxi Services

Global on-demand taxi services such as Uber has a major presence in the Western Province. Its local counterparts Taxiya and Pick Me are also popular in the Southern Coastal belt and Kandy.

- G. Explain the communication system.

The continued expansion infrastructure has enabled a sophisticated level of telecommunication services throughout the whole country. There is significant competition among the existing operators, consisting of three fixed-line operators, five mobile phone operators, and 11 Internet Service Providers and as such internet service is found in urban and semi urban areas. As at September 2017, the Tele-density (fixed phones per 100 inhabitants) was 11.6 and the mobile subscription per 100 people was 131.6.

- H. Describe the public services – i.e. water, electricity, gas. Are they publicly or privately owned?

In Sri Lanka, both water and electricity were publicly owned but these services were taken over by various companies and departments under the control of the Central Government. Gas is owned both publicly and privately. There is a number of telecommunication providers which provide the telecommunication.

II. General Considerations

- A. Investment policies

1. Does the country generally welcome investment? Are there governmental or private agencies devoted to the promotion of investment?

Successive governments from 1978 onwards have aggressively pursued foreign investment.

The Board of Investment of Sri Lanka (“BOI”) is the investment promotion arm of the Government of Sri Lanka. The BOI focuses on fostering and generating economic development, widening and strengthening the base of the economy by encouraging and promoting local investments and foreign direct investments, diversifying the source of foreign exchange earnings and increasing export earnings.

Apart from the BOI, the private sector also has many investment promotion agencies.

Foreign investment in Sri Lanka is guaranteed protection under Article 157 of the Constitution of Sri Lanka. Sri Lanka has also entered into investment protection and double taxation treaties with a number of countries.

2. What is the rate of inflation?

According to data released by The Central Bank of Sri Lanka, the inflation rate for the period January, February and March 2019 is as follows:

Rate	Colombo Consumer Price Index (CCPI)		National Consumer Price Index (NCPI)	
	Headline Inflation (Y-o-Y)	Core Inflation (Y-o-Y)	Headline Inflation (Y-o-Y)	Core Inflation (Y-o-Y)
2019				
January	3.70	5.50	1.20	5.10
February	4.00	5.40	2.40	5.50
March	4.30	5.60	2.90	5.80

3. Explain any sector exceptions, incentives or restrictions on foreign investment?
4. Describe de facto restrictions on investment, if any, such as bureaucratic discretion.

Foreign Exchange Act No. 12 of 2017

The newly enacted Foreign Exchange Act No. 12 of 2017, repeals the Exchange Control Act (Chapter 423) and the regulations made thereto, and came into operation on 20th November 2017. Together with the Exchange Control Act (Chapter 423) all regulations issued thereunder were deemed repealed. New regulations covering certain aspects of exchange control was issued specifically pertaining to capital transactions.

Permitted capital transactions

In terms of Schedule II of the Foreign Exchange (Classes of Capital Transactions in Foreign Exchange carried on by Authorized Dealers) Regulations No 1 of 2017 the permitted capital transactions which a non-resident investor - including country funds, regional funds, investment funds and mutual funds, can carry on are as follows;

- Investing in shares in companies incorporated in Sri Lanka (subject to certain industry specific restrictions enumerated below.)
- Investing in shares in companies not incorporated in Sri Lanka that are listed on the Colombo Stock Exchange.
- Investing in debt securities or granting loans with tenure of or more than 3 years to Sri Lankan companies other than licensed commercial banks, finance companies, leasing companies and companies limited by guarantee and overseas companies.
- Granting loans or investing in debt securities issued by licensed commercial banks, finance companies, leasing companies subject to the approval of the relevant regulatory authorities.
- Investing in units in Unit trusts and mutual funds, and any other securities issued by the Government, Treasury Bills and Bond, Securities issued by the Central Bank, Sri Lankan Development Bonds, Deposits in licensed financial institutions, Immovable

properties and any other investment categories approved by the Monetary Board. (subject to any restrictions in any other written law)

All funds required for capital transactions (investment) must be remitted through the Investor's Inward Investment Account (IIA). The IIA was previously called the Securities Investment Account (SIA).

Further relaxations have been introduced in relation to issuing of financial guarantees by Sri Lankan Residents in favour of Non-Residents.

Restricted Investments

	Companies incorporated in Sri Lanka	Incorporated outside Sri Lanka having a place of business in Sri Lanka
Prohibited activities	<ul style="list-style-type: none"> - Pawn brokering; - Coastal fishing; - Retail trade if capital is less than US\$ 5mn. 	<ul style="list-style-type: none"> - Money lending (other than the branches of registered foreign banks); - Pawn brokering; - Retail trade if the capital is less than US\$ 5 million; - Coastal fishing; - Growing and primary processing of tea, rubber, coconut and rice; - Mining and primary processing of non-renewable national resources - Freight forwarding; - Shipping agency business; - Mechanized mining of gems; - Lotteries.
Permitted with the relevant regulatory approval	<ul style="list-style-type: none"> - air transportation; - Coastal shipping (as defined by the ministry assigned the subject of fisheries); - Any of the following industrial undertakings - <ol style="list-style-type: none"> i. Any industry manufacturing arms, ammunitions, explosives, military vehicles and equipment, aircraft and other military hardware. ii. Any industry manufacturing poisons, narcotics, alcohol, dangerous drugs and toxic, hazardous or carcinogenic materials iii. Any industry producing currency, coins, or security documents. - Large scale mechanized mining of gems; - Lotteries. 	<ul style="list-style-type: none"> - Production of goods where Sri Lankan exports are subject to internationally determined quota restrictions; - Growing and primary processing of sugar, cocoa and spices; - Timber based industries using local timber; - Deep sea fishing; - Mass communication; - Education; - Outbound travel agency business; - Local air transportation; - Any industry manufacturing or producing- <ol style="list-style-type: none"> i. arms, ammunitions, explosives, military vehicles and aircraft equipment, and other military hardware. ii. poison, narcotics, alcohol, dangerous drugs and toxic, hazardous or carcinogenic material. iii. currency, coins and security documents.

Permitted foreign investment up to 40% of share capital	<ul style="list-style-type: none"> - 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; - Deep sea fishing; - Mass communication; - Education; - Freight forwarding; - Travel agencies; - Shipping Agencies. 	N/A
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The Inland Revenue Act

The Inland Revenue Act No 24 of 2017, which repeals and amends the existing Inland Revenue Act No 10 of 2006, will come into effect on 1st April 2018. Many significant changes have been introduced by way of the new Act.

Capital Gains Tax

The new Act re-introduces capital gains tax on the gains realized on investment assets held by residents and non-residents of Sri Lanka. The tax will be charged at the rate of 10% on the gains realized. The following assets are subject to capital gains tax, provided such asset is held as an investment.

- land or buildings
- a membership interest in a company, partnership or trust
- a security or other financial asset
- an option, right, or other interest in an asset referred to above.

The following investments do not attract capital gains tax.

- Gains made by a resident individual which is less than LKR 50,000;
- Trading stock and depreciable assets;
- The principal place of residence of an individual, provided it has been owned by the individual continuously for three years before disposal, and lived-in for at least two of those three years;
- The sale of shares of companies listed on the Colombo Stock Exchange.

Incentives for New Investments

Sri Lankan government has moved away from granting tax concessions and concessionary tax rates for foreign investors. Substantial capital allowances will be granted to encourage investment. An outline of the enhanced capital allowances and the applicable investment criteria are set out below.

Investment criteria	Concession granted
Investment exceeding US\$ 3Mn (made in fixed assets other than land and intangible assets) in the Northern Province of Sri Lanka	200% capital allowance
Investment exceeding US\$ 250Mn on assets or shares of a SOE	150% capital allowance
Investment between US\$3Mn and US\$100Mn (in assets other than land and intangible assets) in areas other than Northern Province	100% capital allowance
Investment exceeding US\$100Mn (in assets other than land and intangible assets) in areas other than Northern Province	150% capital allowance

Investment exceeding US\$1,000Mn (made in fixed assets other than land and intangible assets) would be eligible to obtain an exemption on withholding on dividends to non-residents and on employment taxes applicable for expatriate employees (up to a maximum of 20 expatriate employees).

The Board of Investment Law No.4 of 1978 (“BOI Law”)

The BOI is empowered to approve project under the following categories in terms of the BOI Law.

Projects approved under Section 17 of the BOI Law

The BOI is empowered to approve projects and enter into agreements with enterprises granting exemptions from laws such as Customs, subject to fulfilment of the investment threshold or any other specified requirement. The projects that meet the minimum investment threshold of US\$ 3 Mn upwards, can enjoy special incentives in the form of enhanced capital allowances under the Inland Revenue Act No 24 of 2017.

Projects approved under Section 16 of the BOI law

The approval under this category permits foreign investments to operate under the normal laws of the country with no benefits such as approval under Section 17 as described above. However, the BOI facilitates the entry of the foreign investment to Sri Lanka.

Projects approved under Strategic Development Projects Act No.14 of 2008

If a project is identified as a “Strategic Development Project” under the above Act, the BOI has the power to exempt such projects from multiple tax legislation.

However, the provisions of the above Act are currently not implemented due to a policy decision of the Government of Sri Lanka although the Act is still in force.

Foreign Investment in Sri Lanka is not restricted by bureaucratic discretion.

5. What are the sizes of the different markets?
6. What types of businesses are conducted in the country?

Sri Lanka is a small economy compared to its Asia Pacific neighbours and hence the size of its market is also small. The country is in the process of transitioning from a rural economy to an urbanized one centered on manufacturing and services.

Sri Lanka's economy grew at an average 5.8% during the period 2010 to 2017 and the GDP per capita is US US\$ 4,073.

There is no restriction or otherwise on a business and therefore all types of business are conducted in the country.

B. Diplomatic Relations

1. Explain any established diplomatic relations your country may have.

As per the foreign policy of Sri Lanka priority will be given in the political, defense, economic, trade and cultural spheres to the friendly relationships that we already have with countries in the Asian Region including India, Japan, China and Pakistan.

Sri Lanka is an active member of the Commonwealth and SAARC. The 23rd Commonwealth Heads of Government Meeting (CHOGM) was held in Colombo, Sri Lanka in November 2013.

2. Give addresses, and contact information for the embassies or consulates in your country.

Contact information for the embassies or consulates is available on the website www.sltda.lk

3. Are there prohibitions or restrictions on certain business dealings with the country?

No, unless otherwise restricted as set out in II A above.

4. Explain any travel restrictions to or within the country?

There are no travel restrictions to Sri Lanka; or except in High Security Zones which include certain parts of the Northern Province.

C. Government

1. Explain your country's election system and schedule. Is there an anticipated change in the present government?

Sri Lanka uses an open list proportional system to elect its parliament every five years, in which voters may choose to vote for a party or a candidate within a party. Of the 225 seats, 196 are elected in multi-winner districts with 4 to 19 members. The remaining 29 national seats are used to ensure that the number of seats each party wins is proportional to the number of votes they won.

There are a total of 22 electoral districts and the parliament has 225 members elected for a five year term. A 196 members elected in multi seat constituencies through proportional representation system where each party is allocated a number of seats from the quota for each district according to the proportion of the total vote that party obtains in the district.

The 2019 Sri Lankan presidential election will be the 8th presidential election, scheduled to be held in December 2019. The Parliamentary election is scheduled to be held in 2020.

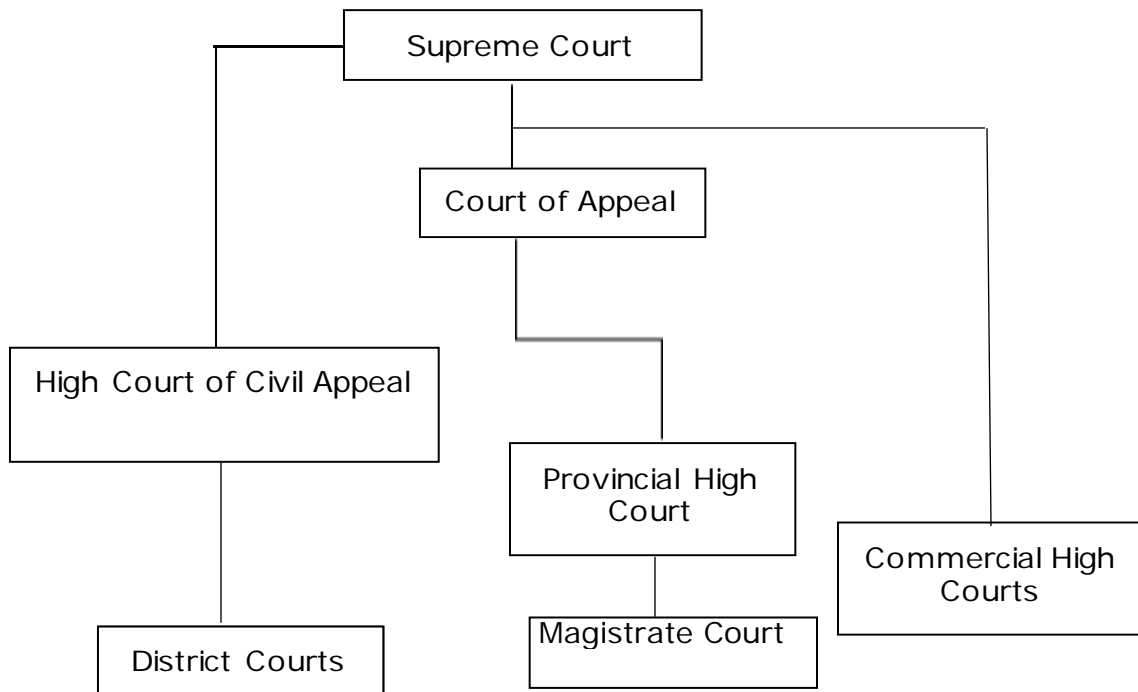
2. Is the present government stable? Briefly explain your country's political history in the last decade.

By the 19th amendment enacted by the Parliament, neither the president nor the parliamentary system will change until an election February 2020. The 19th amendment envisages the dilution of many powers of Executive Presidency, which had been in force since 1978. Further, the main prospect of the amendment was to repealing the 18th Amendment which gave the President extreme powers and to reinforce democracy in the country. It establishes a Constitutional Council which will exercise some executive powers previously held by the President. It also restores many components of the 17th amendment letting the Constitutional Council to set up Independent Commissions.

Sri Lanka's recent history has been marred by civil war. Tensions between the Sinhalese majority and the Tamil minority simmered and erupted into civil war in 1983. However, under the presidency of Mahinda Rajapaksa, the Liberation Tigers of Tamil Eelam (the LTTE) were defeated and the civil war came to an end in 2009. Despite his success in ending the civil war, President Rajapaksa, unexpectedly lost the presidential election in January 2015 to the Maithreepala Sirisena, who was the common candidate, by a margin of 48 to 51 percent. The August 2015 parliamentary election solidified Sri Lanka's new found stability. In addition, the current government in the parliament, has the majority by virtue of a coalition government.

3. Explain your country's judicial system. Be sure to answer the following questions:

The chart below demonstrates the vertical court system:



The Constitution of Sri Lanka and the Judicature Act No. 2 of 1978 provide the provisions relating to the court system in Sri Lanka. Article 118 of the Constitution states that the Supreme Court is the highest and final superior court of record in Sri Lanka. Further, according to Article 105 (3) of the Constitution the superior appellate courts of Sri Lanka are the Supreme Court and the Court of Appeal. The Judicature Act No. 2 of 1978, Judicature (Amendment) Act No. 71 of 1981 and Judicature (Amendment) Act No. 16 of 1989 establishes the courts of first instances are the High Court, the District Court and the Magistrates' Court.

- Is the judicial system generally perceived to be impartial?

The courts of Sri Lanka are perceived to be impartial.

- Must disputes be resolved in the country?

Some disputes may be resolved outside Sri Lanka. Generally, the Sri Lankan courts respect the choice of law and dispute resolution processes (generally arbitration) agreed between contracting parties. However, the courts have held that certain laws override private agreements on the choice of law and/or dispute adjudication process. For example:

- The Admiralty Jurisdiction Act applies to any vessel subject to admiralty court proceedings.
- The Companies Act applies to applications relating to companies (for example, minority shareholder applications, winding-up applications, and applications for oppression and mismanagement).

- Can foreign judicial decisions be enforced in the country?

Sri Lanka is a signatory of the Hague Convention on the Recognition and Enforcement of Foreign Judgements in civil and commercial matters 1971, which internationally covers the aspect of enforceability of other judgments in the local jurisdiction. However, the aforementioned Convention has not been enacted in Sri Lanka and had only persuasive authority until such time it is enacted by the Sri Lankan Parliament.

The Ordinance which have been enacted in Sri Lanka in this regard is the Reciprocal Enforcement of Judgments Ordinance No. 41 of 1937 – Chap 79.

In terms of this Ordinance judgements of superior courts in the following countries may be enforced in Sri Lanka; United Kingdom, Mauritius, New South Wales, Singapore, Tanganyika, Uganda, Victoria, Malaysia, Australian Capital Territory, Northern Territory of Australia, New Zealand (including the Cook and Niue Islands), Trust Territory of Western Samoa, Queensland, Western Australia, South Australia and Tasmania.

Sri Lanka court may, if in all the circumstances of the case they think it is just and convenient that the judgement should be enforced in Sri Lanka may order the judgement to be registered accordingly however subject to the provisions of the said Section.

Sri Lanka is a party to the 1958 New York Convention and in terms of New York Convention, a party to an arbitration agreement pursuant to which an arbitral award is made may, within one year after the expiry of fourteen days of the making of the award apply to the High Court for the enforcement of the award.

Enforcement of foreign arbitration awards:

The Arbitration Act states that a foreign arbitral award irrespective of the country to which it was made, shall be recognized as binding and, upon application by a party to the High Court, be enforced by filling the award in accordance with the provisions with the Arbitration Act.

There are specific grounds of refusing recognition or enforcement of a foreign arbitral award, irrespective of the country in which it was made, namely:

- a) a party to the arbitration agreement under some incapacity, or the said agreement is not valid under the law to which the parties have subjected it, of failing any indication as to the law to which the parties have subjected such agreement, under the law of the country where the award was made; or
- b) the party against whom the award is invoked was not given proper notice of the appointment of an arbitrator or of the arbitral proceeding or was otherwise unable to present his case; or
- c) the award deal with the dispute not contemplated by or not falling within the terms of the submission to arbitration, or it contain decision on matters beyond the scope of the submission to arbitration; or
- d) the composition of the arbitral tribunal or the arbitral procedure was not in accordance with the agreement of the parties or, in the absence of such agreement, was not in accordance with the law of the country where arbitration took place; or

e) the award has not yet become binding on the parties or has been set aside or suspended by a court of the country in which, or under law of which that award was made; or

Unless otherwise objected to under Arbitration Act 1995, foreign arbitration judgments are recognized in Sri Lanka and are enforceable here. The enforceability however depends largely on the agreement of the parties.

- Is there a political method of resolving disputes?
There are no political methods of resolving disputes.

- Are alternative methods of dispute resolution permitted?

The alternate methods of dispute resolution available in Sri Lanka are arbitration and mediation. Arbitration is regulated by the Arbitration Act No. 11 of 1995. Parties can also refer disputes to arbitration under the rules of the Institute for the Development of Commercial Law and Practice (ICLP). The arbitration procedure is specified in the Arbitration Act and the ICLP Rules, as applicable. Arbitration proceedings tend to be inquisitorial. There is an emphasis on fact-finding and resolution of the dispute with the input of both parties guided by the arbitrators, who can be specialists in the particular field in which the dispute arose. Parties also have the option to refer dispute to mediation under the Mediation Boards Act, however, this generally does not apply in large commercial disputes. Disputes of a value below LKR500,000 must be referred to mediation before commencing court proceedings.

- How long does it take to resolve disputes?
On average, a regular action in a court of law can take three to five years to conclude litigation on a dispute. However, these decisions are subject to appeal which could also take several years.
- Can decisions from the country be enforced outside the country?
Decisions from the country can be enforced outside the country subject to the laws of the country in which it is enforced.
- Are there separate tribunals depending upon the subject matter of the case?

Large commercial disputes are primarily referred to the Commercial High Court [of the relevant province], in accordance with the High Court of Provinces (Special Provisions) Act No. 10 of 1996. In addition, the Commercial High Court is also vested with admiralty jurisdiction. However, in Admiralty matters, any agreement by parties to a dispute to settle their disputes by arbitration will not oust the jurisdiction of the High Court, invoked under the Admiralty Law. The Commercial High Court has jurisdiction over disputes arising from commercial transactions with a value exceeding LKR5 million. To date, only the Western Province has a commercial high court. Therefore, these commercial disputes arising in other provinces are referred to the relevant district court.

Labour Tribunals have been established under the Industrial Disputes Act No.62 of 1957, to handle labour disputes and termination of employment.

- Are there different legal systems within the country or its political subdivisions?

Sri Lanka recognizes the personal laws applicable to certain communities which include Kandyan Law, Thesawalamai and Muslim Law. Kandyan Law applies as a personal law to Kandyan Sinhalese population and the Muslim law applies to the

Muslim community resident in Sri Lanka. Thesawalamai is a customary law which applies to the Tamils resident in the Northern Province. These laws mainly regulate laws governing marriage and property laws.

- Can the investor choose to be subject to the country's jurisdiction or not?
An investor can choose to be subject to the country's jurisdiction or not.

Explain your country's legislative system.

Sri Lanka gained its independence on the 4th of February 1948. The British parliament passed the Ceylon Independence Act on 10th December 1947 and on the 19th of December 1947 the Ceylon Independence Order was issued. Finally, on the 4th of February 1948 Ceylon became an independent country.

After the independence, Sri Lanka was ruled under the Soulbury Constitution. In 1972 the first Sri Lankan made constitution was introduced. In 1978, a new constitution was introduced to the country. It provided for a unicameral parliament and an Executive President. The term of office of the president and the duration of parliament were both set at six years (later changed to five years). The new constitution also introduced a form of multi-member proportional representation system for elections to parliament. The 1978 constitution has been implementing up to date with amendments.

As per Article 4 (a) of the 1978 Constitution the legislative power of the People shall be exercised by Parliament.

Parliament has the power to make laws, including laws having retrospective effect and repealing or amending the Constitution.

By the introduction of the 13th amendment to the Constitution of Sri Lanka in [year], 1987 Provincial Councils were created and certain legislative powers of Parliament were delegated to the Provincial Councils.

There are nine provinces in Sri Lanka namely:

Western, North-Western, Uva, Sabaragamuwa, Central, Eastern, Southern, North-Central, Northern.

A Provincial Council is established for every Province in Sri Lanka.

According to Article 154A (2) every Provincial Council established will comprise members elected in accordance with the law relating to Provincial Council elections.

In terms of Provincial Councils Act No. 42 of 1987 the number of members of a Provincial Council shall be determined by the President having regard to the area and population of the Province for which that Provincial Council is constituted.

According to Article 154G (1) of the Constitution every Provincial Council may, subject to the provisions of the Constitution, make statutes applicable to the Provinces only.

Provincial Council may pass provincial legislation in respect of limited matters.

E.g. -

1. Police and Public Order - Public order and exercise of police powers within the Province to a certain extent
2. Planning - Implementation of provincial economic plans
3. Education and Educational Service - Education to a certain extent
4. Local Government
5. Provincial Housing and Construction
6. Roads and bridges and ferries thereon within the Province
7. Social Services and Rehabilitation
8. Regulation of road passenger carriage services and the carriage of goods by motor vehicles within the Province and the provisions of inter-provincial road transport services.

9. Development, conservation and management of sites and facilities in the Province for the generation and promotion of electric energy (other than hydro-electric power and power generated to feed the national grid)

Laws in Sri Lanka are passed by way of Acts of Parliament. The early stage of an Act, which is a proposed legislation, is known as a Bill.

Bills of Parliament can be classified as follows:

1. Government Bills
2. Private Members' Bills

1. Government Bills

There are 3 categories of [Government] government Bills, namely:

- Ordinary Bills
- Constitutional Amendment Bills
- Appropriation Bill

Constitutional Amendment Bills are in respect of proposed amendments to the Constitution. All Bills other than the Constitutional Amendment Bills and the Appropriation Bills are Ordinary Bills.

For a bill to become an Act of Parliament, it needs to go through three readings in the Parliament, affirmative voting by the required majority of the members of Parliament members and endorsement and endorsement of the Speaker of the Parliament. The time period for a Bill to be passed as an Act of Parliament depends on different factors such as the nature of the Bill and the mode in which the Bill is presented to Parliament.

2. Private Members' Bills

Any Member of Parliament who wishes to introduce a Bill to the Parliament which is intended to affect or benefit some particular person, association or corporate body should give notice of the Bill by advertising in the Gazette in Sinhala, Tamil, English and in at least one Sinhala, one Tamil and one English newspaper circulating in the Republic stating its general nature and objects and such advertisement shall appear at least one month before the application for leave to introduce the Bill is made.

D. Environmental Considerations

1. What is the public/government attitude toward environmental regulation?

Article 27 (2) (14) of Chapter IV of Constitution of Sri Lanka specifically provides Directive Principles of state policy and fundamental duties. This states that "the state shall protect, preserve and improve the environment for the benefit of the community". However, this is not legally binding and is merely a guideline which the state must follow. Sri Lanka has a number of legislations enacted for the purpose of protecting the environment. A list of environmental legislations that have direct and indirect impacts on the environment are given in MERE and UNEP (2009).

2. Explain any environmental regulations.

The National Environmental Policy was adopted in 2003, which aims to promote the sound management of Sri Lanka's environment balancing the needs for social and economic development and environmental integrity. Many related policies, such as the National Forest Policy (1995) which enables the protection of remaining natural forests while increasing the tree cover, the National Wildlife Policy (2000) which aims to conserve wildlife resources through promoting conservation, maintaining ecological processes and life sustaining systems, managing genetic diversity and ensuring sustainable utilization and the sharing of equitable benefits arising from biodiversity, National Air Quality Management Policy (2000) and National Watershed have also been introduced.

Sri Lanka also has a diverse set of institutions with direct and indirect responsibilities on environmental policymaking. Various mandatory powers are decentralized from central government to regional institutions by the constitution originally and through amendments done later. The National Environment Act (1980) had the basic provisions to setup the Central Environmental Authority is the main regulatory arm and coordinating agency of protection and management of the environment. A separate ministry for caring for the environment was established in 1991 and with that many environment-related institutions were clustered to this central body.

Any development projects are expected to follow a regular Environmental Impact Assessment (EIA) process and implement their recommendations.

E. Intellectual Property

- Describe the law for the protection of intellectual property, including trademarks, copyrights, patents and know-how.

Intellectual Property Act No. 36 of 2003 is the main IP law enacted by the legislature. The act provides a basic framework for the protection of the competition, copyright and related rights (neighboring rights), enforcement of IP and related laws, geographical indications, industrial designs, layout designs of integrated circuits, patents, trade names, trademarks, traditional cultural expressions, trade secrets etc. The said legislation is implemented by Intellectual Property Regulations (Regulations No. 01 of 2005) on the subject matters of copyrights and related rights, traditional cultural expressions. The said regulations were superseded by Intellectual Property Regulations No. 01 of 2006 on the subject matters Industrial Designs, Layout designs of Integrated circuits, patents and trademarks. The Intellectual Property Act 2003 replaced the Code of Intellectual Property Act No. 52 of 1979 (as amended by Act No. 30 of 1980, No.02 of 1983, No. 17 of 1990, No. 13 of 1997 and No. 40 of 2000).

In addition to the Intellectual Property Act of 2003 the Constitution of Sri Lanka contains provisions for the protection of Intellectual Property rights, such as the provisions related to the protection of the freedom of culture and the freedom of trade and business in Article 14(1) (f) (g).

Intellectual Property related laws can also be found in the National Museums Ordinance No. 31 of 1942 which provides for the establishment and maintenance of national museums in Sri Lanka for the collection, preservation and exhibition of objects of scientific, historical or artistic interest and for the maintenance of libraries of books and other documents relating to subjects and matters of such interests.

Furthermore, the Civil Procedure Code of Sri Lanka provides for the procedures in civil law matters which are also applicable in Intellectual Property related law suits.

- Does the country subscribe to international treaties? Describe.

Sri Lanka has subscribed to a number of International treaties for the protection and promotion of Intellectual Property rights.

- Marrakesh Treaty to Facilitate Access to Published Works for Persons Who Are Blind, Visually Impaired or Otherwise Print Disabled (January 5, 2017)
 - Trademark Law Treaty (August 1, 1996)
 - Nairobi Treaty on the Protection of the Olympic Symbol (February 19, 1984)
 - Patent Cooperation Treaty (February 26, 1982)
 - Convention Establishing the World Intellectual Property Organization (September 20, 1978)
 - Madrid Agreement for the Repression of False or Deceptive Indications of Source on Goods (December 29, 1952)
 - Paris Convention for the Protection of Industrial Property (December 29, 1952)
 - Berne Convention for the Protection of Literary and Artistic Works (February 4, 1948)
 - World Trade Organization (WTO) – Agreement on Trade – Related Aspects of Intellectual Property Rights (TRIPS Agreement) (1994) (January 1, 1995)
 - Agreement on the Protection and Enforcement of Intellectual Property Rights between the United States of America and the Democratic Socialist Republic of Sri Lanka (October 19, 1991)
- Are there substantive prior approvals by national investment boards?
No substantive prior approvals are required from national investment boards.
 - What are the notarization requirements?
The Intellectual Property Act of 2003, which is the basic framework for the protection of Intellectual Property matters in Sri Lanka does not specifically require notarization of documents in respect of Intellectual Property matters.
 - Are there regulatory guidelines for licenses?
 - Do local antitrust or competition laws apply to licenses?

In terms of the Intellectual Property Act No.36 of 2003 a license contract must be in writing and must be signed by the contracting parties or their authorized agents. It is not mandatory to record licenses. However, it is compulsory to record licenses of layout designs. A license contract is null and void in the absence of the stipulations ensuring the effective control by the licensor of the quality of the goods or services in respect of which the mark maybe used.

Section 128(2) of the Intellectual Property Act of 2003 states that any clause or condition which imposes on the licensee restrictions not derived from the rights available under the Act to a registered owner or which is not necessary for safeguarding such rights is null and void. These provisions are designed to prevent the licensor from imposing on the licensee restrictions which are irrelevant to the exclusive rights attached to the intellectual property and operates as rules of anti – monopoly law or antitrust laws.

Where any license contract or any amendment or renewal

- (a) Which involves the payment of royalties abroad or
- (b) Which by reason of other circumstances is detrimental to the economic development of the country.

The Director General has the power to communicate such fact to the Governor of the Central Bank and the Governor may decide upon the validity of same.

- Are there specific exceptions or requirements relation to a particular product(s)?

A general prohibition is imposed by section 103 (1) (l) of the Intellectual Property Act of 2003 prohibits the registration of a mark in respect of certain goods and services the trading of which is prohibited in Sri Lanka. Furthermore, specific prohibitions are imposed on the registration of trademarks in respect of horn, bone, ivory, whalebone, game and edible bird nests in line with the Flora and Fauna Protection Ordinance of 1937.

Furthermore, section 62(3) of the Intellectual Property act provides a list of inventions which are not patentable.

- When are royalties from licenses deemed to be excessive?
There are no provisions relating to royalties which are deemed to be excessive.
- What typical agreements do foreign corporations enter into with their wholly owned subsidiaries?
 - * Agreements to assign intellectual property rights
 - * Licensing Agreements

III. Investment Incentives

A. Explain any export incentives or guarantees. Be sure to answer the following questions:

- Are there tax incentives for exports?

Yes. The Inland Revenue Act No. 24 of 2017 provides a concessionary rate of 14% for a company predominantly conducting a business of exporting goods and services. They are also exempt from VAT and NBT.

- If so, are they limited to certain types of products?
It is applicable to all goods and services.
- Is export financing available from government or private sources?
Both government and private sources provide export financing.
- If so, what forms of financing or guarantees are available?
Loan schemes such as general and technical transfer loan schemes are available.
- Is there any governmental insurance for exports?
Yes
- Must a national be a participant in the enterprise in order for the investor to benefit from these incentives?
No such requirement has been prescribed by local laws. In areas where foreign investment is permitted, foreign investors are treated equally with domestic investors and may benefit from the incentives provided by the Board of Investment or from the Treasury. Please refer Part II A for restricted areas of foreign investment.

B. Explain any grants, subsidies or funds your country offers foreign investors. Be sure to answer the following questions:

- Are grants and subsidies restricted by the type of activity?
- What is the process for obtaining approval for these grants or subsidies?
- How long does it take to receive approval?
- Can the investor receive loans from the government or governmental agencies?
- Must a national be a participant in the enterprise in order for the investor to receive these grants or subsidies?

Foreign investors are not offered grants or subsidies.

C. Explain any national tax incentives for foreign investors. Be sure to answer the following questions:

- Are the incentives restricted by the type of activity?
- Are the incentives restricted by the duration of the activity?
- What is the process of application?

The Inland Revenue Act No. 24 of 2017 provides an Incentive Regime granting reduced tax rates for specific sectors and Enhanced Capital Allowances based on capital investments made by the investors. Under S.17 of the BOI Law, the Board of Investment is empowered to approve projects and enter into agreements with enterprises granting exemptions from laws such as Customs, subject to fulfilment of the investment threshold or any other specified requirement.

D. Explain any regional tax incentives open to foreign investors. Be sure to answer the following questions:

- Are there tax incentives for the investor that exists only in certain regions of the country?
- Does the investor need to receive approval to be eligible for these incentives?
- Are the incentives restricted by the type of activity?
- Are the incentives restricted by the duration of the activity?
- What does the process of application involve?

Please refer our response to Incentives for New Investments on Page 06.

IV. Financial Facilities

A. Banking/Financial Facilities

- What kind of financial institutions exist?

The financial institutions in Sri Lanka consists of licensed commercial banks, licensed specialized banks, licensed finance companies, licensed finance leasing companies and insurance companies.

- Must the investor maintain a bank account in the country?

According to regulations issued under the Foreign Exchange Act No. 12 of 2017 all funds required for capital transactions (investment) must be remitted through the Investor's Inward Investment Account (IIA) opened and maintained in any foreign currency designated by the Central Bank of Sri Lanka or Sri Lanka Rupee with a licensed commercial bank in Sri Lanka as an authorized dealer. The IIA was previously called the Securities Investment Account (SIA).

- What are the requirements for opening a bank account?

The relevant banks will have its own procedure for the opening of bank accounts and may change from bank to bank.

- What are the restrictions if any, on the investors use of the account?

Regulations issued under the Foreign Exchange Act permits the following debit and credit limits for foreign investors under the IIA.

Permitted credits

Dividends, sale or maturity proceed, disposal of liquidation, capital redemption, share buyback, profits, surplus funds, rental income, recovery of principal, interest or any other related income received from capital transactions undertaken in Sri Lanka by persons resident outside Sri Lanka as permitted under the provisions of the foreign Exchange Act.

Permitted debits

Payments relating to capital transactions undertaken in Sri Lanka by persons resident outside Sri Lanka in terms of the permissions granted under the provisions of the Foreign Exchange Act.

- What is the type of financial system in the country?
- How is the banking system structured?

The financial system of Sri Lanka is regulated by the Central Bank of Sri Lanka (CBSL), which is the main body responsible for formulating the monetary policy of Sri Lanka. It issues licenses regulates, supervises all major financial institutions.

The two core objectives of CBSL are:

- (1) Maintaining economic and price stability
- (2) Maintaining financial system stability

CBSL is not only the banker to the banks but is also the banker to the Government of Sri Lanka. CBSL also acts as the economic affairs advisor to the Government of Sri Lanka. The banking sector in Sri Lanka, which comprises Licensed Commercial Banks (LCBs) and Licensed Specialized banks (LSBs), dominates the financial system and accounts for the highest share of the total assets in the financial system. Banks play a critical role within the Sri Lankan financial system, as they are engaged in provision of liquidity to the entire economy, while transforming the risk characteristics of assets.

- Is there a Stock Market?

Yes. The Colombo Stock Exchange (CSE) is licensed by the Securities & Exchange Commission of Sri Lanka and is the only authorized Stock Exchange in Sri Lanka.

- Can the investor receive bank loans?

A foreign investor may obtain financial facilities from banks in Sri Lanka through an entity set up in Sri Lanka i.e. the investee entity and this may be subject to applicable law.

Exchange Controls

The Foreign Exchange Act No. 12 of 2017 is the main statute that deals with the promotion and regulation of foreign exchange in Sri Lanka and the Central Bank of Sri Lanka is vested with the authority of promoting and regulating foreign exchange as the agent of the Government of Sri Lanka.

A. Business Transactions with Nationals, Residents or Non-Residents

- How are nationals, residents and non-residents defined?

The Foreign Exchange Act and regulations issued thereunder does not define the term “nationals”.

The following are treated as “Resident in Sri Lanka” for the purpose of the aforesaid Act:-

1. Any citizen of Sri Lanka or any citizen of a foreign country married to a citizen of Sri Lanka, if such person has been in Sri Lanka for a period of 183 days or more in aggregate during the preceding 12 months.
2. Any Citizen of Sri Lanka:
 - (a) who has proceeded outside Sri Lanka temporarily on holiday, education, business, medical treatment, or for any other similar reason, for a period not more than 182 days in aggregate during the preceding 12 months.
 - (b) who has proceeded outside Sri Lanka on a Student or equivalent Visa granted by another country.
3.
 - (a) Diplomatic Representatives, Consuls or Trade Commissioners of the Government of Sri Lanka resident outside Sri Lanka (by whatever name or title designated);
 - (b) Any person who is a citizen of Sri Lanka, if he is a member of the staff of any person referred to in paragraph 3 (a) above;
 - (c) A member of the staff of a Government Corporation, a Government Institution, a Statutory Board, a licensed bank or a Company which is incorporated in Sri Lanka; serving abroad, except for those recruited abroad;
 - (d) Any member of the family of any person treated as being resident in Sri Lanka under the paragraphs 3 (a) to 3 (c) above.
4. Citizens of foreign countries who are resident in or employed in Sri Lanka under the relevant visa issued by the Department of Immigration and Emigration but not passengers in transit to other countries or visitors touring the country for pleasure or business.
5. Following Institutions incorporated or registered in Sri Lanka irrespective of the status of the citizenship of the persons owning, controlling or managing such institutions;
 - (a) Companies incorporated in Sri Lanka;

- (b) Overseas Companies registered under the Companies Act, No. 7 of 2007 including branches of Licensed Banks incorporated outside Sri Lanka (foreign banks);
 - (c) Companies registered as offshore companies;
 - (d) Clubs, societies or any other organizations including Non-Governmental Organizations registered in Sri Lanka.
6. Trustees of another country of will trusts or inter-vivos settlements and administrators of estates or executors of last wills when acting solely in that capacity where the deceased at the time of death, or the settler at the time the settlement was made, was a resident in terms of the paragraphs 1 to 5 above.
7. Citizens of Sri Lanka who are employed on a Sri Lankan ship, within the meaning of the Merchant Shipping Act, No. 52 of 1971 during the period the individual is so employed.

The Foreign Exchange Act does not define the term “residents outside Sri Lanka” and in the absence of such definition any person who is not a “resident of Sri Lanka as defined in the said Act” can be deemed a “Non- resident of Sri Lanka”.

- Are there restrictions on conducting business with nationals, residents or non-residents?
The Foreign Exchange Act and regulations issued thereunder contains prohibitions and restrictions for certain transactions with respect to conducting business with residents and non-residents.
- Are there reporting requirements?
No.
- Can the investor receive loans from nationals, residents or nonresidents?

A foreign investor may obtain may obtain loans through an entity set up in Sri Lanka i.e. the investee entity from nationals, residents or non-residents and this may be subject to applicable law.

B. Investment Controls

- Are there restrictions on direct investment in the country?
- Are there restrictions on indirect investments in the country?
- Must the investor make declarations regarding the nature of his/her investment?

The following provisions in the Foreign Exchange Act shall apply in response to the above queries.

Permitted capital transactions

In terms of Schedule II of the Foreign Exchange (Classes of Capital Transactions in Foreign Exchange carried on by Authorized Dealers) Regulations No 1 of 2017 the permitted capital

transactions which a non-resident investor - including country funds, regional funds, investment funds and mutual funds, can carry on are as follows;

- Investing in shares in companies incorporated in Sri Lanka (subject to certain industry specific restrictions enumerated below.)
- Investing in shares in companies not incorporated in Sri Lanka that are listed on the Colombo Stock Exchange.
- Investing in debt securities or granting loans with tenure of or more than 3 years to Sri Lankan companies other than licensed commercial banks, finance companies, leasing companies and companies limited by guarantee and overseas companies.
- Granting loans or investing in debt securities issued by licensed commercial banks, finance companies, leasing companies subject to the approval of the relevant regulatory authorities.
- Investing in units in Unit trusts and mutual funds, and any other securities issued by the Government, Treasury Bills and Bond, Securities issued by the Central Bank, Sri Lankan Development Bonds, Deposits in licensed financial institutions, Immovable properties and any other investment categories approved by the Monetary Board. (subject to any restrictions in any other written law)

Restricted investments

	Companies incorporated in Sri Lanka	Incorporated outside Sri Lanka having a place of business in Sri Lanka
Prohibited activities	<ul style="list-style-type: none"> - Pawn brokering; - Coastal fishing; - Retail trade if capital is less than US\$ 5mn. 	<ul style="list-style-type: none"> - Money lending (other than the branches of registered foreign banks); - Pawn brokering; - Retail trade if the capital is less than US\$ 5 million; - Coastal fishing; - Growing and primary processing of tea, rubber, coconut and rice; - Mining and primary processing of non-renewable national resources - Freight forwarding; - Shipping agency business; - Mechanized mining of gems; - Lotteries.
Permitted with the relevant regulatory approval	<ul style="list-style-type: none"> - air transportation; - Coastal shipping (as defined by the ministry assigned the subject of fisheries); - Any of the following industrial undertakings - <ul style="list-style-type: none"> iv. Any industry manufacturing arms, ammunitions, explosives, military vehicles and equipment, aircraft and other military hardware. 	<ul style="list-style-type: none"> - Production of goods where Sri Lankan exports are subject to internationally determined quota restrictions; - Growing and primary processing of sugar, cocoa and spices; - Timber based industries using local timber; - Deep sea fishing; - Mass communication; - Education; - Outbound travel agency business; - Local air transportation;

	<ul style="list-style-type: none"> v. Any industry manufacturing poisons, narcotics, alcohol, dangerous drugs and toxic, hazardous or carcinogenic materials vi. Any industry producing currency, coins, or security documents. <ul style="list-style-type: none"> - Large scale mechanized mining of gems; - Lotteries. 	<ul style="list-style-type: none"> - Any industry manufacturing or producing- <ul style="list-style-type: none"> iv. arms, ammunitions, explosives, military vehicles and aircraft equipment, and other military hardware. v. poison, narcotics, alcohol, dangerous drugs and toxic, hazardous or carcinogenic material. vi. currency, coins and security documents.
Permitted foreign investment up to 40% of share capital	<ul style="list-style-type: none"> - 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; - Deep sea fishing; - Mass communication; - Education; - Freight forwarding; - Travel agencies; - Shipping Agencies. 	N/A

All funds required for capital transactions (investment) must be remitted through the Investor's Inward Investment Account (IIA)

INWARD INVESTMENT ACCOUNTS (IIAs)

- (1) Persons eligible to open an IIA
 - (a) A non- national resident in or outside Sri Lanka.
 - (b) A non-national of Sri Lankan origin, who is a resident outside Sri Lanka
 - (c) A Sri Lankan citizen, resident outside Sri Lanka.
 - (d) A Company incorporated outside Sri Lanka.
 - (e) Country and Regional Funds, Mutual Funds, Unit Trusts and other Institutional investors who are established outside Sri Lanka.

- (f) An administrator or executor of a deceased person, in the name of such deceased person who maintained an Inward Investment Account with that authorized dealer until the completion of the administration of the deceased person's estate.
- (g) A receiver or liquidator of a Company that maintained an Inward Investment Account with that authorize dealer until proceedings are concluded.
- (h) Any other person or category of persons who may be authorized by the Central Bank from time to time.

(2) Permitted Credits

- (a) Remittances in foreign exchange received from outside Sri Lanka in favour of the account holder through the banking system. ‘
- (b) Transfers from Personal Foreign Currency Accounts, Inward Investment Accounts or accounts maintained in the Offshore Banking Unit of the same account holder.
- (c) Dividends, sale or maturity proceeds, disposal of liquidation, capital redemption, share buyback, profits, surplus funds, rental income, recovery of principal, interest or any other related income received from capital transactions undertaken in Sri Lanka by persons resident outside Sri Lanka as permitted under the provisions of the Foreign Exchange Act, No. 12 of 2017
- (d) Foreign currency brought into Sri Lanka by the account holder upon declaration (i.e., where such foreign currency notes exceed or equals to USD 15,000 or its equivalent in other foreign currency on a declaration to Customs Department or where such foreign currency notes are less than USD 15,000 or its equivalent in other foreign currency on an appropriate declaration to the authorized dealer),
- (e) Sale proceeds including capital gains, leasehold rights, sub-lease hold rights, if any, received in Sri Lanka Rupees re-designated where such investment had been made through the Inward Investment Account [or through the Securities Investment Account of the account holder or upon ascertaining the proof of inward remittances prior to these regulations come into effect.
- (f) Transfers from Business Foreign Currency Account of a person resident in Sri Lanka as repayment of foreign currency loans obtained by such person (i.e., borrower) from the account holder (i.e., foreign lender) under a general or special approval granted under the provisions of the repealed Exchange Control Act or Foreign Exchange Act, No. 12 of 2017.

- (g) Sri Lanka Rupees converted into foreign currency by a resident in Sri Lanka (i.e., borrower) for repayment of foreign currency loans obtained from the account holder (i.e., foreign lender) under a general or special approval granted under the provisions of the repealed Exchange Control Act or Foreign Exchange Act, No. 12 of 2017.
 - (h) Transfers from Diplomatic Foreign Currency Accounts and Diplomatic Rupee Accounts of the same account holder.
 - (i) Transfers from an Inward Investment Account of another person (i.e., buyer) in respect of sale of permitted investments to such buyer by the account holder where such investment has been made by the account holder through the same Inward Investment Account (including any subsequent shares devolving on the investor by virtue of a corporate action by the issuer, exercise of a right, entitlement or conversion).
 - (j) Transfers from Capital Transactions Rupee Account of the same account holder as permitted by Directions issued by the Central Bank.
 - (k) Transactions or Transfers from any other category of accounts that may be permitted to maintain by the Central Bank from time to time, to the extent such transactions or transfers have been permitted by directions issued by the Central Bank.
 - (l) Interest earned on the funds held in the account.
- (3) Permitted Debits
- (a) Disbursements in Sri Lanka in Sri Lanka Rupees.
 - (b) Outward remittances in favor of the account holder.
 - (c) Transfers to Inward Investment Accounts, Personal Foreign Currency Accounts or accounts maintained in the Offshore Banking Unit of the same account holder.
 - (d) Payments relating to capital transactions undertaken in Sri Lanka by persons resident outside Sri Lanka in terms of the permissions granted under the provisions of the Foreign Exchange Act, No. 12 of 2017.
 - (e) Disbursements relating to foreign currency loans to persons resident in Sri Lanka where such loans have been obtained in terms of a general or special approval granted under the provisions of the Foreign Exchange Act, No. 12 of 2017.

- (f) Transfer of proceeds of foreign currency loans (including debt securities) to an Outward Investment Account of the borrower, where such loans have been obtained for the purpose of financing an overseas capital transaction (i.e., an outward' investment) permitted under the provisions of the Foreign Exchange Act, No.12 of 2017.
- (g) Transfers to Diplomatic Foreign Currency Accounts and Diplomatic Rupee Accounts of the same account holder.
- (h) Transfers to an Inward Investment Account of another person (i.e., seller) in respect of the purchase of any permitted investment from such seller by the account holder.
- (i) Transactions or Transfers to any other category of accounts that may be permitted to maintain by the Central Bank from time to time, to the extent such transactions or transfers have been permitted by directions issued by the Central Bank.

C. Money Transfer

- Is there free determination of exchange rates?

Sri Lanka currently follows a flexible exchange rate regime, the exchange rate of the country is determined by the supply and demand for foreign exchange in the economy.

- Are the restrictions on the transfer of money into or out of the country?

Transfer of money into or out of the country shall be subject to regulations issued under the Foreign Exchange Act.

- Are there restrictions on the remittances of profits abroad?

Please refer to our note on IIA above (Page 23)

- Are there reporting requirements?

No.

- Can hard currency be taken out of the country?

Yes, subject to regulations issued under the Foreign Exchange Act

V. Import/Export Regulations

A. Customs Regulations

- Is the country a member of GATT?

Yes.

- Is the country a member of the EEC?

No.

- Is the country a party to a regional free trade agreement?

Sri Lanka participates in two regional agreements, the South Asian Free Trade Agreement (SAFTA) and the Asia-Pacific Trade Agreement (APTA), and two bilateral agreements, the Indo-Sri Lanka Free Trade Agreement (ISFTA), and the Pakistan-Sri Lanka Free Trade Agreement.

- Does the Customs Department value the goods?
The customs value of any imported goods shall be the transaction value, that is, the price actually paid or payable for the goods when sold for export to Sri Lanka. If the value of the goods cannot be established by this method, Sri Lanka Customs will attempt to establish the value of the goods using methods in line with Article 7 of the GATT.
- How are goods cleared through customs?
An importer is under a legal obligation to declare all the goods imported correctly and to pay the correct amount of duty before the goods are released and to also take delivery.

Import consignments should be declared to the customs through a Customs House Agent and the Customs Declaration should be submitted online. The Customs Declaration (Entry) should be submitted after arrival of goods and also after obtaining the Delivery Order from the Shipping Agent.

Trade samples can be cleared under No Foreign Exchange (NFE) basis after obtaining the approval from the Director/Deputy Director (Declaration). But, the relevant duty and other levies for the trade sample should be paid to Customs before such goods are cleared from the customs.

Export consignments should be declared to the Customs through a Customs House Agent and the Customs Declaration should be submitted online once the Exporter is ready to export. The Customs Declaration (CusDec) should be submitted before export of goods (after obtaining necessary approvals when necessary). However, Export should be effected within 30 days from the CusDec registration date.

Export consignments will be subject to examination. Depending on the commodity and other risk management criteria, goods will be selected under three categories as Exempted, Panel Examination and Cargo to be Examined. Selected consignments under Panel Examination and Cargo to be Examined categories are subjected for the examination whereas the selected consignments under Exempted category are released to export without examination.

- Are there applicable tariffs?

The following duties and fiscal levies are collected by Sri Lanka Customs, on imported goods, at the time of importation. The chargeability of these import taxes and levies depends on the HS code of the goods.

- Customs Duty (Preferential and General)
- Nation Building Tax (NBT)
- Value Added Tax (VAT)
- Export Development Board (EDB)Cess
- Port and Airport Development Levy (PAL)
- Excise (Special Provisions) Duty (ED)
- Special Commodity Levy (SCL)

A few commodities are liable for exports levies depending on the commodity and the HS Code. Customs Duty, EDB Cess, Tea Board Cess, Tea Medical Aid Cess, Coconut Cess and Rubber Cess should be paid according to the declared rates.

B. Exports

- Are there restrictions on exports?
The following exports are restricted;
 - Dead or live animal or its parts. Permits are issued for research purposes and for exchange with foreign zoos and museums.
 - Antiquities/Cultural Property
 - Dangerous drugs
 - Explosives
 - Live Fish (Prohibited species)
 - Minerals in raw form
 - Obscene publication and literature
 - Protected plants listed under the Fauna & Flora Protection Ordinance
- Are export licenses required?
- Are there applicable export duties?

C. Foreign Trade Regulations

- Are there foreign trade regulations on the import or export of goods involved in the business?

D. Imports

- Are import licenses required?
- Are there applicable import duties?
- Are there applicable import quotas?
- Are there applicable import barriers?

In terms of the Import and Exports (Control) Act No. 1 Of 1969 (as amended), any person who wishes to import into or export from Sri Lanka any goods must obtain a license issued by the Controller of Imports and Exports, unless there are applicable exemptions.

The Special Import License and Payment Regulations No. 01 of 2011 and amendments lists out the goods in respect of which an import license is required. Import Licenses are generally required in respect of drugs, vehicles, chemicals, telecommunication and electrical equipment, animals and animal products and tea. Goods that are not listed under these regulations do not require import licenses.

In addition to an export license, a registration/certification from the applicable governmental authority is required for exportation of goods.

A license granted to any person shall, subject to the conditions set out in the license and to the provisions of this Act or any regulation made thereunder, authorize such person to import into, or export from, Sri Lanka, goods of such value and in such quantity or quantities as may be specified in the license.

The Controller of Imports and Exports has the power to amend, suspend or cancel any license issued to any person at any time in writing.

Imports and Exports are subject to the applicable duty rates based on the HS Code as determined under the Customs Ordinance.

Generally, the main import barriers include Customs formality and procedures, Technical Regulations, Standards and conformity assessment procedures, Origin Requirements, Sanitary and Phytosanitary Measures, Production subsidies and Government Procurement restrictions.

E. Manufacturing Requirements

- Must the product contain ingredients or components, which are found or produced only in the country?
There are industry specific restrictions and prohibitions.
- Will the importation of certain component parts be permitted only if they are to be ultimately incorporated in a final product?
There are industry specific restrictions.

F. Product Labeling

- Are there applicable labeling or packaging requirements (e.g. multi-lingual notices, safety warnings, listing of ingredients, etc.)?

The Consumer Affairs Authority Act No.9 of 2003 and the Food Act No.26 of 1980 as amended and regulations made thereunder contain provisions relating to labelling, packaging, safety etc.

VI. Structures For Doing Business

A. Governmental Participation

- Will the government seek to participate in the ownership or operation of the entity (e.g. depending on the type of activity involved)?

Government participation in the ownership and operation of entities is allowed but rare.

- If so, to what extent?

The Government may hold shares and appoints its nominees to the Board of Directors of such entities.

- What is the investor's potential liability to partners, investors or others?

The investor's liability will depend on the type and structure of the entity he has invested in.

- Are there restrictions on capitalization?

There are no restrictions on capitalization.

- What are the investor's tax consequences?

Please refer our response to XII and XIII

B. Joint Ventures

- Are joint ventures permitted?

Yes

- If so, how are they registered or incorporated?

A joint venture can be established pursuant to an agreement between the parties which sets out all of the partners' rights and obligations, the objectives of the Joint Venture and the initial contributions of the partners and carried on as an unincorporated business similar to that of a partnership. A joint venture can also be incorporated as a Private Limited Company under the Companies Act No. 07 of 2007.

Partnerships are not required to be registered in Sri Lanka. However, if the business name of the partnership does not consist of the names of the true full names of all the partners, then it must be registered under the provincial statute on Business Names in the relevant Province of Sri Lanka.

- How long do these procedures take?

Partnership - It takes a maximum of 05 working days to issue a certificate of business names registration provided that the relevant application form is submitted correctly along with all the correct documents related to it.

Private Limited Company - It takes 2-3 weeks for the issue of the Certificate of Incorporation.

- What costs and fees are involved?

Costs for incorporating a company include incorporation fees payable to the Registrar of Companies ("ROC"), cost of publication of the public notice in the news paper of incorporation and other incidental expenses.

Fees for registering the business name of the Partnership with under the Business Names Ordinance (if the business name of the partnership does not consist of the names of the names of the true full names of all the partner) and other incidental expenses.

- Must a national of the country or a related state be a participant, manager or director?

A company with 100 percent foreign ownership can be registered in Sri Lanka but in relation to joint venturing companies in most cases 51 percent is held by local partners and 49 percent by foreign partners. This is subject to equity caps in respect of the area of activities under the Foreign Direct Investment (FDI) policy.

- What is the investor's potential liability?

The investor's liability will depend on the type and structure of the entity he has invested in.

- Are there restrictions on capitalization?

Capitalization will be subject to certain industry specific restrictions set out in II A.

- What are the investor's tax consequences?

Private Limited Companies - Please refer our response to XII and XIII.

Partnerships - Please refer our response to XIV J

C. Limited Liability Companies

- Are limited liability companies permitted?

Yes

- If so, how are they registered or incorporated?

A name approval must be obtained from the ROC by filling a name search form. The ROC can either approve the name, request more information or request a change to the proposed name. On approval, the name is reserved for a period of three months and the incorporation procedure must be completed within this period. The following must be prepared and submitted to the ROC for incorporation:

Form 1 (Registration of a Company).

Form 18 (Consent and Certificate of Director).

Form 19 (Consent and Certificate of Secretary).

One copy of the articles of association.

The Application for company incorporation is submitted online since April 2018.

Public notice of incorporation, specifying the name, company number and the registered address of the company, must be given within 30 working days of incorporation.

- How long do these procedures take?

2-3 weeks for the issue of the Certificate of Incorporation.

- What costs and fees are involved?

Costs for incorporating a company include incorporation fees payable to the Registrar of Companies ("ROC"), cost of publication of the public notice of incorporation in the news paper and other incidental expenses.

- Must a national of the country or a related state be a participant, manager or director?

No.

- Are there restrictions on capitalization?

Capitalization will be subject to certain industry specific restrictions set out in II A.

- What are the investor's tax consequences?

Please refer our response to XII and XIII.

D. Liability Companies, Unlimited

- What are the forms of liability companies?
The Companies Act No. 07 of 2007 provides for the establishment and supervision of incorporated companies of the following types;
 - Limited Company
 - Unlimited Company
 - Company limited by Guarantee
- How are these companies registered or incorporated?
Please refer our responses to IV C.
- How long do these procedures take?
Please refer our responses to IV C.
- What costs and fees are involved?
Please refer our responses to IV C.
- Must a national of the country be a participant, manager or director?
No

E. Partnerships, General or Limited

- Are partnerships recognized or permitted?

Partnerships are recognized in Sri Lanka. However, the concept of limited liability partnership is not recognized under Sri Lankan Law.

All partnerships require a partnership agreement that is written or verbal. In terms of Section 18 of the Prevention of Frauds Ordinance states that a promise contract, bargain or agreement will not be of force or avail in law for establishing a partnership where the capital exceeds Rs. 1000/- unless it is in writing and signed by the parties.

The relationship between partners are governed by the Partnership Deed or the Articles of partnership. If there is no written agreement, the relationship will be governed by the course of dealing among the partners in terms of the Partnership Ordinance.

Partnerships are not required to be registered in Sri Lanka. However, if the business name of the partnership does not consist of the names of the true full names of all the partners, then it must be registered under the provincial statute on Business Names in the relevant Province of Sri Lanka.

If there are more than 20 partners, S. 519 of the Companies Act requires that the said partnership be registered as a company under the Companies Act or any other enactment.

- Must a national of the country or related state be a partner?
- If so, to what extent?

Foreigners are not allowed to register partnerships in Sri Lanka.

- What costs and fees are involved?

Fees for registering the business name of the Partnership under the Business Names Ordinance (if the business name of the partnership does not consist of the names of the names of the true full names of all the partner)

- What is the investor's potential liability?

Partners are jointly and severally liable in torts If such wrongs were committed during the ordinary course of partnership business or if such wrongs were done with the authority of other partners but in the case of contracts their liability is only several unless otherwise agreed to. Since every partner is an agent of the firm and of his partners, the acts of every partner in carrying on the business, will be binding on the firm and the other partners. A new partner does not become liable to the creditors of the firm for anything done before he becomes a partner.

- What are the investor's tax consequences?

- A partnership is liable to pay 8% income tax on the divisible profits of the partnership.
- An investor shall be liable for income tax arising or derived from Sri Lanka if the investor is considered a non-resident for tax purposes.

F. Partnerships, Undisclosed

- Do undisclosed partnerships exist?
- If so, how are they formed?
- What costs and fees are involved?
- Must a national of the country or a related state be a participant, manager or director?
- What is the investor's potential liability?
- What are the investor's tax consequences?

Sri Lankan statutes as well as courts in Sri Lanka recognise partnerships created by way of written or oral agreement or implied through conduct. Non-registration does not exclude the existence of a partnership.

In the absence of a Deed of Partnership, Sri Lankan courts have recognised the existence of a partnership in the event there is a relations of agency (whereby one partner acts as an agent of the other partners making them liable as well in the capacity of partners), community of profits and losses arising from the partnership, and sharing of capital. A case by case approach is adopted in this regard with the intention of recognising fictitious or artificial partnerships created to avoid statutory liabilities such as payment of taxes.

In the event the Courts recognise the existence of a partnership, our responses to Partnerships above will be applicable hereto as well.

G. Sole Proprietorships

- Can the investor be a sole proprietor?

Yes

- How is the sole proprietorship registered or established?

Sole proprietorships are not required to be registered in Sri Lanka. However, if the business name of the sole proprietorship does not consist of the true full names of the investor, then it must be registered under the provincial statute on Business Names in the relevant Province of Sri Lanka.

- How long does this process take?

1 day.

- What costs and fees are involved?

Fees for registering the business name of the sole proprietorship under the Business Names Ordinance (if the business name of the partnership does not consist of the true full name of the Sole Proprietor)

- What is the investor's potential liability?

The investor's liability is unlimited.

- Are there restrictions on capitalization?

There are no restrictions on capitalization.

- What are the investor's tax consequences?

An investor shall be liable for income tax arising or derived from Sri Lanka if the investor is considered a non-resident for tax purposes

H. Subsidiaries/Branches/Representative Offices

- Can the investor establish a branch, subsidiary or representative office?
Yes.

Subsidiaries

A subsidiary is considered to be a company incorporated in Sri Lanka.

Our responses to IV C will apply in the instant case

Branches/Representative Office

- If so, how long does registration or incorporation take?
Approximately 4-6 weeks.
- What costs and fees are involved?
Incorporation fees payable to the registrar of companies and legal fees.
- Must a national of the country or a related state be a participant, manager or director?
No.
- Are there restrictions on capitalization?

An overseas company registered to undertake or carry on any commercial, trading, or industrial activity invest a minimum of USD 200,000/- or equivalent amount in other designated foreign currencies, out of remittances received from abroad and channeled through a special rupee account designated as the Inward Investment Account ("IIA") opened with a licensed commercial bank in Sri Lanka.

- What is the investor's potential liability

The investor's liability will be limited to the liability of such branch or representative office.

- What are the investor's tax consequences?

An investor shall be liable for income tax arising or derived from Sri Lanka.

- Are these tax consequences different than those of a local company?

No.

I. Trusts and other Fiduciary Entities

- Are trusts or other fiduciary entities recognized?

Trusts are recognized in Sri Lanka. The term "Fiduciary Entities" is not found under Sri Lanka law.

- If so, how are each defined?

A trust is defined in the Trusts Ordinance No. 9 of 1917 as an obligation annexed to the ownership of property, and arising out of confidence reposed in and accepted by the owner, or declared and accepted by him, for the benefit of another person, or of another person and the owner, of such character that, while the ownership is nominally vested in the owner, the right to the beneficial enjoyment of the property is vested or to be vested in such other person, or in such other person concurrently with the owner.

- What are the legal consequences of a transfer of assets to a trust or fiduciary?

The trustee is the legal owner of the property in trust, as fiduciary for the beneficiary or beneficiaries who is/are the equitable owner(s) of the trust property. Trustees thus have a fiduciary duty to manage the trust to the benefit of the equitable owners. They must provide a regular accounting of trust income and expenditures. Trustees may be compensated and be reimbursed their expenses. A court of competent jurisdiction can remove a trustee who breaches his/her fiduciary duty. Some breaches of fiduciary duty can be charged and tried as criminal offences in a court of law.

The trustee is bound to fulfil the purpose of the trust, and to obey the directions of the author of the trust given at the time of its creation, except as modified by the consent of all the beneficiaries being competent to contract. A trustee is bound to maintain and defend all such suits, and (subject to the provisions of the instrument of trust) to take such other steps as, regard being had to the nature and amount or value of the trust property, may be reasonably requisite for the preservation of the trust property and the assertion or protection of the title thereto.

Where the trustee commits a breach of trust, he is liable to make good the loss which the trust property or the beneficiary has thereby sustained, unless the beneficiary has by fraud induced the trustee to commit the breach, or the beneficiary, being competent to contract, has himself, without duress or undue influence having been brought to bear on

him, concurred in the breach, or subsequently acquiesced therein with full knowledge of the facts of the case and of his rights as against the trustee.

- Can the investor be the grantor, trustee or beneficiary?

The Trust Ordinance states, every person capable of holding property may be a trustee; but, where the trust involves the exercise of discretion, he cannot execute it unless he is competent to contract.

There is no restriction in the investor being the grantor or trustee. However, a person in Sri Lanka is prohibited from settling any property upon any trust under which an interest in that property is conferred on a person who, at the time of the settlement, is resident outside Sri Lanka except with the permission of the Director of the Department of Foreign Exchange in the Central Bank of Sri Lanka.

VII. Requirements For The Establishment Of A Business

A. Alien Business Law

- Is the business subject to any alien business law?
- Are there registrations or reporting requirements?

Alien controlled businesses in Sri Lanka are subject to the domestic laws of the country and there is no distinct law for alien businesses. However, there are restrictions imposed on foreign investors by certain enactments such as the Foreign Exchange Act No.12 of 2017, Land (Restrictions on Alienation) Act No.38 of 2014

B. Antitrust Laws

- Do the entity's operations comply with anti-trust laws?
- Are there filing requirements?

There is no specific anti-trust law in Sri Lanka. However, other statutes have anti-trust elements such as the Public Utilities Commission of Sri Lanka Act No.35 of 2002, Telecommunication Act No.25 of 1991, and Consumer Affairs Authority Act No.9 of 2003 etc.

The Telecommunication Authority has the authority to maintain and promote effective competition between persons engaged in commercial activities connected with telecommunication under the Telecommunication Act.

The Public Utilities Commission in relation to each public utilities industry, regulate and inquire into anti-competitive practices, monopolies, acquisitions and abuses of dominant position and merger situations and may carry out an investigation either of its own motion or on a complaint or request made to it by any person, with respect to the creation or suspected creation of a merger situation in accordance with the Public Utilities Commission Act.

C. Environmental Regulations

- Is the business of the investor subject to environmental regulation?
- If so, are there added costs involved (e.g. audit requirements)?

An investor may be required to conduct environment impact assessment and obtain licenses depending on the business.

D. Government Approvals

- Are government approvals required for the anticipated business?
- If so, how long does this process take?
- What fees are involved?

Government Approvals may be needed depending on the nature of the business and industry.

Approval from the National Medicines Regulatory Authority must be obtained in order to manufacture, sell and import drugs. The process for obtaining government approvals differs on a case by case basis.

E. Insurance

- Must the enterprise carry insurance?
- If so, what kind of risks must be insured?
- Is there a state monopoly on insurance?

It is not mandatory to obtain insurance in relation to a business

F. Licenses/Permits

- Are licenses or permits required for the anticipated activity?
- If so, how does the investor apply for and receive the necessary license or permit?
- How long does it take to receive the license or permit?

Certain business activities require licenses or permits from the relevant authorities. In order to establish a banking business a license should be obtained under the Banking Act No.30 of 1988. Furthermore, in order to sell tobacco and alcohol a license has to be obtained from the National Authority on Tobacco and Alcohol.

Operation Of The Business

A. Advertising

- Are there restrictions on advertising?

Certain laws and regulations impose restrictions in respect of advertising.

National Authority on Tobacco and Alcohol Act No.27 of 2006 prohibits tobacco and alcohol advertisements.

Food (Labeling and advertising) Regulations 2005 provides restrictions in relation to advertising.

B. Attorneys

- Is it necessary to have local counsel?
- How can local counsel be found?
- How much are attorneys fees?

Only a qualified Attorney at Law of the Supreme Court of Sri Lanka is permitted to engage in legal practice in Sri Lanka irrespective of whether they hold a licensing qualification in another jurisdiction. Therefore, it is prudent to seek the advice of a local counsel who is licensed to practice law in Sri Lanka.

C. Bookkeeping Requirements

- Must the investor keep local books of accounts?
- In what form must the investor keep accounts (e.g. GAP, in what language, etc.)?

Companies are required to keep accounting records and prepare financial statements that correctly record and explain the company's transactions in the manner provided in the Companies Act No.07 of 2007.

D. Business Ethics/Codes

- Are there certain business ethics or codes, which the investor must follow (e.g. GAAP for accountants, etc.)?

There are corporate governance rules applicable to listed companies, banks, finance companies and leasing companies but they do not specifically apply to investors.

E. Consumer Protection Laws

- Are there consumer protection laws, which apply to the investor's operations?
The Consumer Affairs Authority Act No.03 of 2009 governs consumer protection in Sri Lanka. The Act provides for the promotion of effective competition and protection of consumers, regulation of internal trade and all matters connected therewith or incidental thereto.

F. Construction

- What are the costs of construction?

The cost of carrying out a construction will include the cost of obtaining permits, the cost of materials required and the cost of payments to be made to the contractors.

- Are permits required for construction?

A building permit is required be obtained from the relevant Municipal Council for building purposes along with a certificate of conformity prior to occupation and other required documents such as a drainage certificate.

- How is authorization to construct obtained?
A permit has to be obtained from the Urban Development Authority for any development activity including construction within a development area under the Urban Development Authority (Amendment) Act No 4 of 1982.
- How long does it take to receive authorization?
- What fees are involved?

An application for a building permit has to be submitted along with the building plan to the relevant Provincial Office of the Urban Development Authority or the relevant Municipal Council. Further, building plans must be approved from the relevant local authorities and a certificate of conformity has to be obtained from the Urban Development Authority or the relevant Municipal Council prior to occupation. The Fees include the Application fees and the Processing fees which is based on the floor area of the proposed building.

G. Contracts

- Can the investor freely enter into local contracts?
- Can the law of another country govern the contracts?

Any investor can freely enter into local contracts and such contracts can be governed by the law of another country.

H. Price Controls

- Are there applicable price controls?

The Consumer Affairs Authority is vested with power to fix a maximum price for specific goods and services by order published in the Gazette.

If the Minister by Order has prescribed specific goods or services as 'Specified Goods/Services', manufacturers or traders cannot increase the retail or wholesale price of such specified goods or service unless they obtain prior written approval of the Consumer Affairs Authority.

I. Product Registration

- Must the entity register its product?
- If so, how is registration obtained?
- How long does the process take?
- Are there fees involved?

A product must be registered based on the nature and the type of the product.

In terms of the National Medicines Regulatory Authority Act, No. 5 of 2015, No person shall manufacture or import any medicine without registering such medicine with the Authority and obtaining a license from the Authority therefor.

The procedure, duration and fees differ based on the product.

J. Reductions or Return on Capital

- Can capital be repatriated while the corporation is still ongoing?

Capital can be repatriated while the corporation is still on going. The repatriation should be carried out through the Inward Investment Account of the shareholder. Repatriation through repurchase of shares and distribution of dividends are such examples.

K. Sale of Goods

- Are there restrictions on the manner, time or place of sale of goods?

Sale of Goods is governed by the Sale of Goods Ordinance No.11 of 1896. There are no general restrictions applicable under the Ordinance. However, restrictions are applicable to certain types of goods such as tobacco, alcohol, medicine, cosmetics etc. under the relevant laws.

National Authority on Tobacco and Alcohol Authority Act No. 27 of 2006 prohibits the sale of any tobacco or alcohol product to persons under Twenty One years of age. Further the Consumer Affairs Authority can determine the standards and specifications relating to sale of goods under the Consumer Affairs Authority Act No.09 of 2003.

- L. Trade Associations
- Are there trade associations the investor can or must join?
 - If so, are there fees involved?
 - Are there mandatory trade practices?

There are trade associations that the investor can join but it is not obligatory E.g. Ceylon Chamber of Commerce. National Chamber of Exporters etc. A list of such trade associations are available at [<http://www.slaaec.com/trade-associations.php>]

There is a fee involved and there are no mandatory trade practices.

X. Cessation Or Termination Of Business

- A. Termination
- What are the tax consequences of terminating the business?

The tax consequences depend largely on the form of the business entity. Depending on the entity a tax clearance will be required to be obtained from the department of Inland Revenue.

- What costs are involved in termination?
The costs involved in terminating a business are the liquidator's fee, auditor's fee, cost of settling debts, costs related to terminating employment of employees, cost of liquidation committee etc.
- How long does it take to terminate the business?
The time period taken to terminate a business depends on the type of the business.
- How is the investor's particular form of business treated in termination?
Different forms of businesses are treated differently in the process of termination. For example; Companies may be wound up in accordance with the provisions of the Companies Act and the Companies Winding up Rules. Winding up of a company may be either by court, voluntarily, or subject to the supervision of Court. The thirteenth schedule of the Companies Act deals with liquidation of assets of an overseas company in the event of winding up.
- Can the business be terminated without government approval or intervention?
A business can generally be terminated without the intervention of the government.
- What are the obligations toward creditors, employees and others upon termination?
Gazette no. 1384/07 dated 15th march 2005 sets out the mode of granting compensation in the event of termination of employment of an employee.
The Ninth Schedule to the Companies Act provides for preferential claims i.e. Persons a liquidator should pay in the event of liquidation, listed according to the order of priority. The tenth schedule provides for payment of amount claimed by creditors in the event of liquidation.
- What are the tax consequences of termination?
Please refer our response to the above.

- B. Insolvency/Bankruptcy
- What is the extent of the investor's liability in the event of insolvency or bankruptcy?

If the business is a sole proprietorship, a partnership, unlimited company, the investor is liable personally toward the debts of the company. That is to say that the investor's liability is not limited to his/her amount of investment in the business but if required, the investor has to also utilize his personal assets to settle business debts.

On the other hand if it is a limited liability company, the investor's liability towards the debts of the business in the event of bankruptcy or insolvency is limited to the amount of investment contributed by the respective investor.

- What choices, if any, are available to the investor with regard to the restructuring of the business?
In the event of bankruptcy or insolvency a business can opt to restructure its business in terms of amalgamation or merges with other business entities or issue shares or debentures to the public instead of liquidating the entity as a whole.
Mergers and acquisitions of publicly quoted companies are regulated by the Takeovers and Mergers Code of 1995, as amended in 2003 (Code), administered by the Securities and Exchange Commission of Sri Lanka (SEC). The Code is applicable to foreign-to-foreign acquisitions without exception

XI. Labor Legislation, Relation, And Supply

A. Employer/Employee Relations

- What laws govern employer/employee relations?
The Statutes relating to employer/employee relations include Industrial Disputes Act No. 43 of 1950, Termination of Employment of Workmen (Special Provisions) Act No. 45 of 1971, Wages Board Ordinance No. 27 of 1941, Factories Ordinance No.45 of 1942, Employees Provident Fund Act No. 15 of 1958, Employees Trust Fund Act No. 46 of 1980, Workmen's Compensation Ordinance No. 19 of 1934 and Shop and Office Employees (Regulation of Employment and Remuneration) Act No. 19 of 1954.
- Are there obligations to train employees?
There is no legal obligation to train employees.

B. Employment Regulations

- Must the investor hire nationals of the country?
There is no requirement to hire nationals of the country unless the investor enters into an agreement with the Board of Investment of Sri Lanka and such agreement provides for such a requirement.
- Is there a minimum wage?
In terms of the National Minimum Wage of Workers Act No.3 of 2016, the minimum monthly wage for all employees (irrespective of industry) is LKR 10,000 and the minimum daily wage will be LKR.400.

All Wages Boards have fixed minimum wages payable in respect of various classes of workers. These wages have been fixed on the basis of daily wages, monthly wages, piece rates or even contract rates depending on the type of work performed by each class or grade of worker. These rates have been revised from time to time by way of Regulation.

- Is there a maximum number of hours an employee can work each week?
In terms of the Shop and Office Employees (Regulation of Employment and Remuneration) Act No. 19 of 1954 (SOEA) the normal working day for all shop and office employees cannot exceed 9 hours on any day (inclusive of 1 hour meal break) and 45 hours in any week.

- Is there a minimum number of vacation and sick days to be given?
An employee under SOEA is entitled to 14 days Annual Leave with full pay for every completed year of service. The SOEA provides that not less than 7 days be allowed on a consecutive basis

C. Hiring and Firing Requirements

- Must the investor employ a minimum number of people?
- Must the investor employ a minimum number of nationals?

There is no requirement to employ neither a minimum number of employees nor nationals of the country unless the investor enters into an agreement with the Board of Investment of Sri Lanka and such agreement provides for such a requirement.

- Must nationals hold certain positions in the company?
There is no necessity of nationals holding certain positions in the company.
- Are there rules to follow in hiring/dismissing personnel (e.g. notice)?
There are no such rules relating to hiring personnel. However, as per Sri Lanka law, an employee can be dismissed only with the prior written consent of such employee or the prior approval of the Commissioner of Labour in Sri Lanka in the event that the dismissal is on grounds other than misconduct.
- Does the investor have a continuing obligation towards dismissed employees?
The investor does not have a continuing obligation towards dismissed employees provided that all statutory payments required to be made by the investor to such employee as the employer have been settled

D. Labor Availability

- Is adequate skilled or unskilled labor available for the anticipated business?
Yes.

E. Labor Permits

- Are labor permits required?
The foreign nationals employed by Sri Lankan entities are required to obtain work permits from the Department of Immigration and Emigration. It is the employer's obligation to obtain and ensure that any foreigners engaged in their establishment have the requisite work permits which are renewed and in force.
- If so, how are they obtained?
- How long does the process take?
- What fees are involved?

A request should be made to the relevant line Ministry along with supporting documents to obtain recommendation for an expatriate. Once the recommendation is issued, the letter of recommendation and supporting documents should be forwarded to the Ministry of Internal Affairs for approval. In the event the company in which the foreign worker is employed, is established with the approval of BOI then the recommendation letter should be obtained from the BOI. A request should be made to the BOI along with supporting documents to obtain the recommendation, which would then be forwarded to the Ministry of Internal Affairs for approval.

Upon completion of the above, the applicant should enter Sri Lanka on an entry clearance. An entry clearance will be valid for a period of one month during which the applicant should make an application for residence visa at the Department of Immigration and Emigration.

Entry clearance/visa will be submitted by the Department of Immigration and Emigration to the Embassy of the Country in which the applicant holds citizenship for stamping of the applicant's passport. Once clearance has been granted and the applicant comes into Sri Lanka, an application along with supporting documents should be submitted to the Department of Immigration and Emigration in order to obtain a residence visa work permit.

Cost

Applicable government visa fee and tax for the employment permit is LKR 20,000.

Time frame

Obtaining the visa will approximately take up to 3 months.

F. Safety Standards

- Are there safety codes that must be followed?

The SOEA makes provision for sufficient and suitable lighting and ventilation at every part of the premises of a shop or office. Similar provision is made for sanitary conveniences and washing facilities, seats for women shop assistants and facilities for meals and resting. An employer cannot compel an employee to reside on the premises of a shop or office unless a permit in the prescribed form has been obtained from the Commissioner or the premises is a residential hotel. The Factories Ordinance No 45 of 1942 and amendments thereto (FO) also makes provision for matters such as cleanliness, overcrowding, temperature control, ventilation, lighting facilities, drainage, sanitary facilities, medical supervision, supply wholesome drinking water, washing facilities, accommodation for clothing, facilities for resting for female workers and first aid.

FO and Workmen's Compensation Ordinance No 19 of 1934 and amendments thereto (WCO) mainly stipulate the employer's obligations regarding the health and safety of its employees. The FO and regulations made thereunder provide for the health, safety and welfare of factory workers. Safety measures to be take in factories in relation to machinery, equipment and ancillaries operated in the factor, floor area, first aid and medical attention, sanitary facilities, accidents, deaths and industrial diseases and working conditions are included in the FO.

G. Unions

- Are unions recognized?

The unions are recognized.

- What are the unions in the investor's business?

The types of unions in the investor's business depend on the investor's business.

- What are these unions' political affiliations, if any?
- Is there an obligation on the part of the employer to organize unions?
There is no obligation on the part of the employer to organize unions.
- Are there mandatory collective bargaining agreements for the business involved?
There are no mandatory collective bargaining agreements for the business involved.

XII. Tax On Corporations

A. Allowances

- What are the major allowances (e.g. capital cost depreciation)?

Capital allowance, balancing allowance and allowance for trading stock are provided for in the computation of tax on business income. Further, enhanced capital allowances are granted as investment incentives for large scale projects.

- What are the major deductible items?

The allowable deductions can be categorized as general deductions, main deductions and specific deductions. Applicability of deduction rules on expenses depends on whether the relevant amount constitutes income from a business or income from an investment. Expenses incurred in the production or generation of income is deductible as against business income.

The qualifying payments and reliefs are the major deductions available under the law. Qualifying payments include donations made to charitable institutions established for institutional care for the sick and needy of LKR 500,000 or 1/5th of the taxable income, whichever is less.

Certain expenses are not deductible from investment income, such as, repairs and improvements, research and development expenses and balancing allowances.

- What are the major expenses that are excluded from deductibility?

The following expenses are not deductible in computing a person's income.

- Domestic expenses
- Tax payable under the Inland Revenue Act No 24 of 2017 ("IRA")
- Interest, penalties and fines payable to a government or a political subdivision of a government of any country for breach of any written law
- Expenditure incurred in deriving exempt amounts or final withholding payments
- Outlays or expenses for entertainment
- An amount transferred in the financial accounts to a reserve or provision for expenditures or losses not yet incurred but expected to be incurred in a future year of assessment
- Taxes and other levies specified by the Commissioner General of Inland Revenue ("CGIR")

In accordance with the thin capitalization rules, for a manufacturing company interest payments exceeding three times the share capital and reserves of the company and where the company is not a manufacturing company four times the share capital and reserves are not deductible.

A deduction for a payment shall not be allowed until the tax, if required, withheld has been paid to the Commissioner General.

B. Calculation of Taxes

- How is the taxable base determined?

The Act identifies four main sources (bases) of income which is aggregates to the taxable income of a person. They are,

- Assessable income from employment
- Assessable income from business
- Assessable income from investment

- Assessable income from other sources.

C. Capital Gains

- What are the federal or national tax rates on capital gains?

Capital gains tax is levied at the rate of 10% on gains derived from the realization of investment assets and liabilities.

- What are the regional or state taxes on capital gains?

There are no regional or state taxes on capital gains.

- What are the municipal or local taxes on capital gains?

There are no municipal or local taxes on capital gains.

D. Filing and Payment Requirements

- When must the corporation file its tax return, if any?

The Return of Income should be filed on or before the expiry of eight months from the end of the year of assessment. Therefore, for a company with a year of assessment of 1st April to 31st March, the Return of Income should be filed on or before 30th November immediately succeeding the end of that year of assessment.

- When must the corporation pay its taxes?

Corporate income tax payments are made in four quarterly instalments on 15th August, 15th November, 15th February and 15th May.

- Are taxes paid in installments or annually?

Corporate income tax payments are made in four quarterly instalments on 15th August, 15th November, 15th February and 15th May.

E. Miscellaneous Taxes Due

- Is there a tax on capital?

There is no tax on capital.

- Is there a business license tax?

Business license tax are levied by the relevant local authority depending on the nature of the business undertaken by the company.

- Is there an apprenticeship tax?

There is no apprenticeship tax.

- Is there a training tax?

There is no training tax.

- Are there other taxes?

Economic Service Charge (ESC)

ESC is a form of minimum alternate tax which is charged when the turnover of a company exceeds LKR 50 million per quarter. ESC is charged at the rate of 0.5% and ESC paid can be set off against the corporate income tax liability of the company and the excess, if any, can be carried forward for two subsequent years of assessment.

Stamp Duty

Stamp duty is imposed on specific instruments which are executed, drawn or presented in Sri Lanka, as well as specific instruments that are executed outside Sri Lanka in relation to property situated in Sri Lanka which are presented in Sri Lanka. The rates at which the stamp duty is imposed are announced/published in the Official Gazette of the Government of Sri Lanka in relation to these instruments. Stamp duty is calculated as a percentage of the value of the instrument.

Import levies

Importation of goods are liable for import levies (which include VAT, NBT, Customs Duty, Excise Duty, Ports and Airport Development Levy and Cess) and the relevant tax rates depend on the HS Code of the imported item.

Betting & Gaming Levy

A person conducting a business of a bookmaker or business of gaming is chargeable with Betting and Gaming Levy at the prescribed rates. The levy has to be paid for each place such business is carried on, as each place is considered as a separate business for tax purposes.

The levy on the business of betting is as follows.

- Where it is carried on through agents - LKR 4,000,000
- In case when live telecast facilities are used for carrying on the business- LKR 600,000
- In case where live telecast facilities are not used in carrying on the business- LKR 50,000

The levy on the business of Gaming is LKR 200,000,000 and the casino entry fee is US\$ 100 per person.

The gross collection of business of bookmaker or gaming is taxed at the rate of 10% and is payable on monthly basis. However, where the gross collection is less than LKR 1,000,000 per month, there is no liability to such levy. Any business which is subject to this levy on the gross collection is not liable to pay VAT or NBT.

Share Transaction Levy (STL)

STL is charged at 0.3% on share transactions taking place in the stock exchange. STL is payable by both seller and buyer of the shares.

Further, the following taxes are applicable based on the transaction.

- Luxury Tax on Motor Vehicles
- Vehicle Entitlement Levy
- Annual Company Registration Levy
- Debt Repayment Levy
- Carbon Tax
- Cellular Tower Levy

- Mobile Short Message Service Levy
 - Construction Industry Guarantee Fund Levy
 - Tourism Development Levy
 - Crop Insurance Levy
 - Levy on Rooms of Five Star Hotels
 - Cellular Mobile Telephone Subscribers' Levy
- What are the filing and payment requirements?

ESC

ESC return has to be filed annually on or before 20th April and ESC payments have to be made quarterly by 20th of the month following the relevant quarter.

Betting & Gaming Levy

Payments should be made in four equal instalments before the commencement of the quarter. The levy payable on the gross collection should be paid on or before the first week of the month immediately following the relevant month. Four quarterly returns should be submitted on 20th April, 20th July, 20th October and 20th January.

F. Registration Duties

- Are there registration duties due upon the incorporation of a company?

There are no registration duties due upon incorporation of a company, however, an Annual Company Registration Levy should be paid by all corporations incorporated or registered under the Companies Act No 7 of 2007 (except for an offshore company and a company limited by guarantee), at the rates set out below.

Private Company – LKR 30,000 per annum
 Listed Public Company – LKR 1,500,000
 Any other company – LKR 250,000

- Are there registration duties due upon an increase in capital?

There are no registration duties on increase in capital.

- Are there registration duties due upon the transfer of the company's shares?

There are no registration duties on transfer of shares.

- Are there registration duties due upon a transfer of corporate assets?

There are no registration duties on transfer of corporate assets.

- Are there any other registration duties due?

There are no registration duties, however, fees and charges for the filing of relevant forms at the Registrar of Companies have to be paid.

G. Sales Tax or other Turnover Tax

- What is the system of sales tax (e.g. V.A.T., cumulative)?

Sri Lanka has two types of sales taxes; they are Value Added Tax and Nation Building Tax.

Value Added Tax (VAT)

VAT is charged at the time of supply on every taxable supply of goods and services made during a taxable period, by a registered person in the course of carrying on, or carrying out, a taxable activity in Sri Lanka, and on the importation of goods into Sri Lanka by any person. A taxable activity is defined to include any activity carried on as a business, trade, profession or vocation, or every action in the nature of a trade and anything done in connection with the commencement or cessation of such activity.

If the value of the taxable supplies of a company exceeds LKR 3 million per quarter or 12 million per annum, it will be required to register for VAT and charge VAT on the taxable supplies made by it. For a company engaging in wholesale and retail trade, the applicable VAT registration turnover threshold is LKR12.5 million per quarter.

Nation Building Tax (NBT)

NBT is levied on importation, manufacture of any article, providing a service of any description and on the turnover of wholesale and retail business. However, pharmaceuticals are exempt from NBT. The current NBT payment turnover threshold is LKR3 million per quarter and LKR12 million per annum. For the processing of any locally procured agricultural produce in the preparation for sale, the liable turnover threshold is LKR25 million per quarter. Upon reaching these turnover thresholds, the company must obtain NBT registration and pay NBT on the liable turnover.

- Is input tax creditable against output tax?

The VAT registered company sets off the input tax credits made against the output VAT credits received and the excess must be paid to the Department of Inland Revenue (“DIR”) on a monthly basis

- What are the tax rates?

VAT

The standard rate of VAT is 15% however certain supplies (such as export of goods and international transportation) are charged at 0%.

NBT

The standard NBT rate is 2%. For wholesale and retail traders, one half of the turnover is exempt from NBT and the balance of the turnover will be subject to a rate of 2%.

- What are the filing and payment requirements?

VAT

VAT returns have to be filed on the last day of the month following the relevant taxable period. For companies supplying zero rated supplies, registered as Registered Identified Purchaser under SVAT scheme and specified financial institutions, the taxable period is one month. The taxable period for other persons or entities is three months.

Companies other than manufacturing entities and financial institutions are required to pay VAT as follows.

- Liability arising for the period of 1st to 15th day of the month- by 30th of the same month
- Liability arising for the period of 15th to 30th day of the month- by 15th of the following month

Manufacturing entities and financial institutions should pay VAT liable for a particular month on or before the 20th day of the following month.

NBT

NBT return should be filed on or before the 20th day of the month following the relevant quarter.

NBT should be paid in three monthly installments amounting to 1/3rd of the NBT payable for the quarter. The payment due dates are as follows.

1st installment – on or before the 20th day of the second month of the relevant quarter

2nd installment – on or before the 20th day of the third month of the relevant quarter

3rd installment – on or before the 20th day of the month immediately succeeding the end of that relevant quarter

H. Social Security and Welfare System Contributions

- Are social security contributions due?

Employers are required to contribute 12% of the relevant employee's earnings and remit to the Employees' Provident Fund (EPF). Earnings for this purpose means basic wage or salary plus all cost of living and similar allowances and payments in respect of holidays, but not overtime payments. Contributions by the employees are made at 8% to the EPF.

All employers are required to contribute to the Employees' Trust Fund ("ETF") an amount equal or more than 3% of the earnings of the employee.

- Are retirement or pension contributions due?

Same as above.

- Are unemployment insurance contributions due?

There are no mandatory unemployment insurance contributions.

- What are the filing and payment requirements for any such contribution?

The relevant EPF and ETF contributions should be remitted to the EPF Department and ETF Board respectively, by the Employer on or before the last working day of the month following the payment of salary. ETF Contribution details should be submitted to the ETF Board bi-annually on 30th August and 28th February.

I. Special Tax Schemes

- Are there particular tax consequences of doing business in the country?

Business in Sri Lanka can be conducted either by creating corporate presence (either by incorporating a company or registering a place of business) or without creating any presence in Sri Lanka. If a corporate presence is established, the entity will be considered a 'resident' person and income generated by such entity from all sources will be taxed in Sri Lanka.

If a corporate presence not established, however a 'permanent establishment' is created within the meaning of the IRA, any income generated in Sri Lanka which is attributable to such permanent establishment will be taxed in Sri Lanka.

A permanent establishment is a place in Sri Lanka where a non-resident person carries on business or that is at the disposal of the person for that purpose and includes –

- (a) a place in Sri Lanka where a person has, or is using or is installing substantial equipment or substantial machinery;
- (b) a place in Sri Lanka where a person is engaged in a construction, assembly or installation project for 90 days or more, including a place where a person is conducting supervisory activities in relation to such a project;
- (c) the provision of services in Sri Lanka, but only if activities of that nature continues (for the same or a connected project) for a period of 183 days or more in any 12-month period; and
- (d) a place in Sri Lanka where an agent performs any function on behalf of the business of a nonresident person –
 - (i) including, in the case of an insurance business, the collection of premiums or the insurance of risks situated in Sri Lanka; but
 - (ii) excluding a case involving a general agent of independent status acting in the ordinary course of business as such

J. Tax on Profits

- What are the federal or national income tax rates on profits?

The standard corporate tax rate for a company is 28%. Small and medium enterprise are eligible to claim the concessionary rate of 14%. An SME is an entity which,

- (a) conducts business solely in Sri Lanka;
- (b) does not have an associate that is an entity; and
- (c) the annual gross turnover is less than LKR 500,000,000.

Further, concessionary rate of 14% is available for following businesses.

- Exporting goods and services
- Agricultural business
- Educational services
- Promotion of tourism
- Providing information technology services

Companies with income from a business consisting of betting and gaming, liquor and tobacco (excluding such income which is merely incidental to another business) are taxed at 40%.

- What are the regional or state tax rates on profits?

There are no regional or state tax on profits.

- What are the municipal or local tax rates on profits?

There are no municipal or local tax on profits.

K. Tax Treaties

- Are there any applicable tax treaties?

Sri Lanka has entered into 44 double tax treaties.

- Are there any rules against treaty-shopping?

Treaty shopping is restricted by the IRA. The Act provides that treaty benefits in the nature of exemption, exclusion or reduction are only available to a company resident in the treaty country when 50% or more of the underlying ownership or control of such company is held by resident(s) of the other contracting state. This restriction does not apply to a company listed on a stock exchange in that other contracting state.

L. Territoriality Rules

- Where is the corporation subject to tax?

Sri Lankan Income tax is based on the residency of the corporation. A company is considered be 'resident' in the following circumstances.

- If it is incorporated or formed under the laws of Sri Lanka;
- If it is registered or the principal office is in Sri Lanka; or
- at any time during the year the management and control of the affairs of the company are exercised in Sri Lanka.

A resident company is charged with income tax on income from business, investment or other source for the year of assessment irrespective of the income source wherever the source arises (i.e., worldwide basis of taxation). A non-resident company is only charged with income tax on business income, investment income or income from other sources to the extent that the income arises in or derived from a source in Sri Lanka.

- Is the corporation subject to tax on its worldwide income?

No. Only a resident company is subject to tax on its worldwide income.

M. Treatment of Tax Losses

- How are corporate tax losses treated?

There are two types of losses that can be incurred in the context of business or investment.

1. Loss on disposal of an asset or liability of a business or investment

2. Overall loss of a business or investment.

An unrelieved loss from a business can be deducted from any other business and can be carried forward for 6 years. A reduced rate loss (i.e., loss incurred from a business for which a reduced rate is available in IRA) can only be set off against the same reduced rate or lower reduced rate profit or exempt profit.

Gain from realization of an investment asset cannot be deducted by any loss on disposal of another investment asset.

N. Wealth Tax

- Is there an applicable wealth tax?

There is no applicable wealth tax.

O. Withholding Taxes

- What are the rates of withholding tax on dividends?

The rate of withholding tax on dividends is 14% under IRA. This rate may be limited by the rate of dividend withholding provided for in the applicable double tax treaty.

- What are the rates of withholding tax on royalties?

Rate of withholding tax on royalties is 14% under IRA. This rate may be limited by the rate of royalties withholding provided for in the applicable double tax treaty.

- What are the rates of withholding tax on interest?

Rate of withholding tax on interest is 5% under IRA. This rate may be limited by the rate of interest withholding provided for in the applicable double tax treaty. Interest paid on loans granted by financial institutions are exempt from withholding tax.

- What are the rates of withholding tax on profits realized by a foreign corporation?

If a resident foreign corporation is repatriating profit by way of dividends, such dividends will be withheld at 14% (subject to rate contained in the applicable double tax treaty). If non-resident foreign corporation remits profits/ any amount to the parent company, such remittance will be withheld at 14%.

XIII. Tax On Individuals

A. Allowances

- What are the major allowances?

Individuals who are conducting business as sole proprietors are eligible for the allowances referred to in XII. A above. No deductions are allowed from an individual's employment income.

Tax free allowance of LKR 500,000 as a qualifying payment is available to individuals and an additional LKR 700,000 as tax free allowance is available to employees.

B. Calculation of Taxes

- How is the taxable base determined?

An individual's taxable income is the aggregate of his assessable income from employment, business, investment and other sources.

C. Capital Gains Tax

- Are capital gains taxable?

Capital gains tax is levied at the rate of 10% on gains derived from the realization of investment assets and liabilities. Where a gain from a transaction is less than LKR 50,000 or total gains in any year is less than LKR 600,000, Capital Gains Tax on such gains is exempt. Further, the sale of principal place of residence of an individual (where such individual has owned continuously for the three years before the disposal and lived in for at least two of the three years) is exempt from Capital Gains Tax.

D. Filing and Payment Requirements

- When must the individual file a tax return, if any?

The Return of Income should be filed on or before the expiry of eight months from the end of the year of assessment, i.e., on or before 30th November of the subsequent year.

- When must the individual pay his/her taxes?

Personal income tax payments are made in four quarterly instalments on 15th August, 15th November, 15th February and 15th May.

E. Inheritance and Gift Tax

- Does the individuals' presence in the country subject him/her to inheritance or gift tax?

There is no inheritance tax or gift tax.

- What kinds of assets are subject to tax? Not applicable.
- What are the tax rates? Not applicable.
- Are allowances available? Not applicable.
- What are the payment and filing requirements? Not applicable.

F. Miscellaneous Taxes Due

- What are the miscellaneous taxes to which the individual may be subject?

Refer XII.E above.

- What are the filing and payment requirements?

The employer is required to, not later than the 15th day of the month following the month in which he made any such deductions, pay to the Commissioner General Inland Revenue the amount of such deductions and at the same time furnish, a monthly declaration in such form and in such manner as may be specified.

G. Real Estate/Habitation Tax

- Is the individual subject to real estate or habitation tax?

There are no real estate or habitation tax. However, certain instruments pertaining to real estate (such as, deeds of transfer, indentures of lease) are subject to stamp duty.

H. Sales Tax

- Does the individual pay sales tax?

Individual, as the end consumer will bear the sales taxes of VAT and NBT.

If the individual is conducting business or vocation and revenue from such business or vocation exceeds the relevant registration thresholds, then such individual will be required to register for VAT and NBT and charge sales taxes thereon.

I. Social Security and Welfare System Contributions

- Are contributions to social security due?

Individual, as an employee will be contributing to EPF at the rate of 8% from his total earnings from employment.

- Are contributions to the welfare system due?

There are no welfare systems in place.

- If so, what are the payment and filing requirements?

Not applicable

J. Stock Option, Profit Sharing and Savings Plans

- Is there taxation of stock option plans?

Stock options given by Employers to its employees are part and parcel of the employee's earnings from employment, and thus will be subject to PAYE.

- Is there taxation of profit sharing plans?

There is no specific tax on profit sharing plans. Profits earned through a profit sharing plan will be subject to income tax as a business.

- Is there taxation of savings plans?

There is no specific tax on savings plans.

K. Taxation of Benefits in Kind

- What is the rate of taxation on benefits in kind (e.g. automobile, housing and utilities, education, etc.)?

Non- cash benefits provided by an employer to its employee are taxed according to the tax tables under PAYE and such non-cash benefits are valued in accordance with the circular issued by the DIR. Refer XIII.Q for the applicable tax rates.

L. Taxes on Dividends

- Are dividends taxable regardless of their form?

Withholding tax on dividends is deducted at source regardless of the form. The applicable withholding tax rate on dividends is 14%.

M. Tax on Income

- What are the federal or national tax rates on income for residents?

Income and profits of resident individuals (other than employment income) are taxed according to the following slab system.

Income (LKR) per annum	Rate
0 – 500,000	-
500,001 – 1,100,000	4%
1,100,001 – 1,700,000	8%
1,700,001 – 2,300,000	12%
2,300,001 – 2,900,000	16%
2,900,001 – 3,500,000	20%
More than 3,500,001	24%

Tax free allowance of LKR 500,000 as a qualifying payment is available to individuals.

- What are the federal or national tax rates on income for non-residents?

Non-resident individual who is a citizen of Sri Lanka is eligible to claim a tax free allowance of LKR 500,000 per annum and thus his income and profits are taxed according to the following slab system.

Income (LKR) per annum	Rate
0 – 500,000	-
500,001 – 1,100,000	4%
1,100,001 – 1,700,000	8%

1,700,001 – 2,300,000	12%
2,300,001 – 2,900,000	16%
2,900,001 – 3,500,000	20%
More than 3,500,001	24%

A non-resident individual who is not a citizen of Sri Lanka is not eligible for the tax free allowance and therefore his income and profits are taxed as per the table set out below.

Income (LKR) per annum	Rate
0 – 600,000	4%
600,001 – 1,200,000	8%
1,200,001 – 1,800,000	12%
1,800,001 – 2,400,000	16%
2,400,001 – 3,000,000	20%
More than 3,000,001	24%

- What are the regional or state tax rates on income for residents? Not applicable
- What are the regional or state tax rates on income for non-residents? Not applicable
- What are the municipal or local tax rates on income for residents? Not applicable
- What are the municipal or local tax rates on income for non-residents? Not applicable

N. Tax Treaties

- Are there any applicable tax treaties?

Sri Lanka has entered into 44 double tax treaties.

- Are there any rules against treaty-shopping?

Treaty shopping is restricted by the IRA, however, such restrictions do not apply to individuals claiming benefits.

O. Territoriality Rules

- Where is the individual subject to tax?

Sri Lankan Income tax is based on the residency of the corporation. A company is considered be 'resident' in the following circumstances.

- Is the individual subject to tax on his/her worldwide income?

No. Only a resident individual is subject to tax on its worldwide income.

P. Wealth Tax

- Is the individual subject to tax based upon his/her wealth?

There is no wealth tax in Sri Lanka

- If so, what are the rates? Not applicable
- Are there any allowances available? Not applicable
- What are the payment and filing requirements? Not applicable

Q. Withholding Tax

- Is salary subject to a withholding tax at the source?

Income from employment, including wages, salary, commission, overtime pay, travelling allowance and other allowances, payment of medical bills and insurance policies, are subject to Pay-as-you-earn tax ("PAYE"), which is withheld at source. A tax free allowance of LKR 1,200,000 per annum is available for an employee. The regular profits of income are taxed as follows.

Income (LKR) per month	Rate
0 – 100,000	-
100,001 – 150,000	4%
150,001 – 200,000	8%
200,001 – 250,000	12%
250,001 – 300,000	16%
300,001 – 350,000	20%
More than 350,001	24%

- What is the treatment of residents as compared to non-residents?

Withholding tax rates applicable to resident and non-resident individuals are set out below.

	Resident Individual	Non-resident individual
Dividends	14%	14%
Interest	5%	5%
Royalties	14%	14%
Rent	10%	14%
Service fee/ Technical fee	5%	14%

Payments made by individuals but not made in conducting a business are not subject to withholding tax, irrespective of the residency.

XIV. Tax On Other Legal Bodies

A. Allowances

- What are the major allowances (e.g. capital cost depreciation)?

Capital allowance, balancing allowance and allowance for trading stock are provided for in the computation of tax on business income. Further, enhanced capital allowances are granted as investment incentives for large scale projects carried by other legal bodies.

- What are the major deductible items?

The allowable deductions can be categorized as general deductions, main deductions and specific deductions. Applicability of deduction rules on expenses depends on whether the relevant amount constitutes income from a business or income from an investment. Expenses incurred in the production or generation of income is deductible as against business income.

The qualifying payments and reliefs are the major deductions available under the law. Qualifying payments include donations made to charitable institutions established for institutional care for the sick and needy of LKR 500,000 or 1/5th of the taxable income, whichever is less.

Certain expenses are not deductible from investment income, such as, repairs and improvements, research and development expenses and balancing allowances.

- What are the major expenses that are excluded from deductibility?

The following expenses are not deductible in computing a person's income.

- Domestic expenses
- Tax payable under the IRA
- Interest, penalties and fines payable to a government or a political subdivision of a government of any country for breach of any written law
- Expenditure incurred in deriving exempt amounts or final withholding payments
- Outlays or expenses for entertainment
- An amount transferred in the financial accounts to a reserve or provision for expenditures or losses not yet incurred but expected to be incurred in a future year of assessment
- Taxes and other levies specified by the CGIR

In accordance with the thin capitalization rules, for a manufacturing company interest payments exceeding three times the share capital and reserves of the company and where the company is not a manufacturing company four times the share capital and reserves are not deductible.

A deduction for a payment shall not be allowed until the tax, if required, withheld has been paid to the Commissioner General.

B. Calculation of Taxes

- How is the taxable base determined?

The Act identifies four main sources (bases) of income which is aggregates to the taxable income of a person. They are,

- Assessable income from employment
- Assessable income from business
- Assessable income from investment
- Assessable income from other sources.

C. Capital Gains

- What are the federal or national tax rates on capital gains?

Capital gains tax is levied at the rate of 10% on gains derived from the realization of investment assets and liabilities.

- What are the regional or state taxes on capital gains?

There are no regional or state taxes on capital gains.

- What are the municipal or local taxes on capital gains?

There are no municipal or local taxes on capital gains.

D. Filing and Payment Requirements

- When must the entity file a tax return, if any?

The Return of Income should be filed on or before the expiry of eight months from the end of the year of assessment. Therefore, for a company with a year of assessment of 1st April to 31st March, the Return of Income should be filed on or before 30th November immediately succeeding the end of that year of assessment.

- When must the entity pay its taxes?

Corporate income tax payments are made in four quarterly instalments on 15th August, 15th November, 15th February and 15th May.

- Are taxes paid in installments or annually?

Corporate income tax payments are made in four quarterly instalments on 15th August, 15th November, 15th February and 15th May.

E. Miscellaneous Taxes

- Are other taxes due?
- What are the filing and payment requirements?

Refer XII.E above.

F. Registration Duties

- Are there registration duties or fees due upon the setting up of the legal body?

There are no registration duties due on setting up of the legal body.

- Are there registration duties or fees due upon a change in the capital of the legal body?

There are no registration duties on increase in capital.

- Are there registration duties due upon the transfer of capital?

There are no registration duties on transfer of capital.

- Are there registration duties due upon a transfer of assets?

There are no registration duties on transfer of assets.

- Are there any other registration duties due?

There are no registration duties, however, the fees for registration will depend on the type of the legal body.

G. Sales Tax or other Turnover Tax

- Is the legal body subject to sales tax or any other turnover tax (e.g. VAT., cumulative)?

Other legal bodies are subject to VAT and NBT. Refer XII. G above.

- Is input tax creditable against output tax?

The VAT registered body sets off the input tax credits made against the output VAT credits received and the excess must be paid to the DIR on a monthly basis

- What are the tax rates?

VAT

The standard rate of VAT is 15% however certain supplies (such as export of goods and international transportation) are charged at 0%.

NBT

The standard NBT rate is 2%. For wholesale and retail traders, one half of the turnover is exempt from NBT and the balance of the turnover will be subject to a rate of 2%.

- What are the filing and payment requirements?

VAT

VAT returns have to be filed on the last day of the month following the relevant taxable period. For companies supplying zero rated supplies, registered as Registered Identified Purchaser under SVAT scheme and specified financial institutions, the taxable period is one month. The taxable period for other persons or entities is three months.

Legal bodies other than manufacturing entities and financial institutions are required to pay VAT as follows.

- Liability arising for the period of 1st to 15th day of the month- by 30th of the same month
- Liability arising for the period of 15th to 30th day of the month- by 15th of the following month

Manufacturing entities and financial institutions should pay VAT liable for a particular month on or before the 20th day of the following month.

NBT

NBT return should be filed on or before the 20th day of the month following the relevant quarter.

NBT should be paid in three monthly installments amounting to 1/3rd of the NBT payable for the quarter. The payment due dates are as follows.

1st installment – on or before the 20th day of the second month of the relevant quarter

2nd installment – on or before the 20th day of the third month of the relevant quarter

3rd installment – on or before the 20th day of the month immediately succeeding the end of that relevant quarter

H. Social Security and Welfare System Contributions

- Are social security contributions due?

Employers are required to contribute 12% of the relevant employee's earnings and remit to the Employees' Provident Fund (EPF). Earnings for this purpose means basic wage or salary plus all cost of living and similar allowances and payments in respect of holidays, but not overtime payments. Contributions by the employees are made at 8% to the EPF.

All employers are required to contribute to the Employees' Trust Fund ("ETF") an amount equal or more than 3% of the earnings of the employee.

- Are retirement or pension contributions due? Same as above
- Are unemployment insurance contributions due?

There are no mandatory unemployment insurance contributions.

- What are the filing and payment requirements for any such contribution?

The relevant EPF and ETF contributions should be remitted to the EPF Department and ETF Board respectively, by the Employer on or before the last working day of the month following the payment of salary. ETF Contribution details should be submitted to ETF Board bi-annually on 31st August and 28th February.

I. Special Tax Themes

- Are there particular tax consequences of doing business in the country under the form of the particular legal body?

Business in Sri Lanka can be conducted either by creating corporate presence (either by incorporating a company or registering a place of business) or without creating any presence in Sri Lanka. If a corporate presence is established, the entity will be considered a 'resident' person and income generated by such entity from all sources will be taxed in Sri Lanka.

If a corporate presence not established, however a 'permanent establishment' is created within the meaning of the IRA, any income generated in Sri Lanka which is attributable to such permanent establishment will be taxed in Sri Lanka.

A permanent establishment is a place in Sri Lanka where a non-resident person carries on business or that is at the disposal of the person for that purpose and includes –

- (a) a place in Sri Lanka where a person has, or is using or is installing substantial equipment or substantial machinery;

- (b) a place in Sri Lanka where a person is engaged in a construction, assembly or installation project for 90 days or more, including a place where a person is conducting supervisory activities in relation to such a project;
- (c) the provision of services in Sri Lanka, but only if activities of that nature continues (for the same or a connected project) for a period of 183 days or more in any 12-month period; and
- (d) a place in Sri Lanka where an agent performs any function on behalf of the business of a nonresident person –
 - (i) including, in the case of an insurance business, the collection of premiums or the insurance of risks situated in Sri Lanka; but
 - (ii) excluding a case involving a general agent of independent status acting in the ordinary course of business as such

J. Tax on Profits

- What are the federal or national income tax rates on profits?
The IRA identifies the following categories of legal bodies where the tax rates are different to that of corporations.
 - Partnerships: Partnership is not taxed. Partner's share of profits is withheld at 8%.
 - Trusts: Taxed at 24%
 - Unit Trusts and Mutual Funds: Taxed at 28%
 - Charitable institutions: Taxed at 14%
 - Non-governmental organizations: The taxable income derived by 3% of the turnover of the non-governmental organization is taxed at 28%
 - Employees trust funds, approved pension or provident funds or approved termination fund: 14%
- What are the regional or state tax rates on profits?
There are no regional or state tax on profits.
- What are the municipal or local tax rates on profits?
There are no municipal or local tax on profits.

K. Tax Treaties

- Are there any applicable tax treaties?
Sri Lanka has entered into 44 double tax treaties.
- Are there any rules against treaty-shopping?
The restriction placed by IRA on treaty shopping does not apply to legal bodies other than companies. Refer XII.K above for the specific rules against treaty shopping.

L. Territoriality Rules

- Where is the legal body subject to tax?

Legal body formed under the laws of Sri Lanka is a resident for tax purposes in Sri Lanka. As a resident the legal body will be income tax on income from business, investment or other source for the year of assessment irrespective of the income source wherever the source arises (i.e., worldwide basis of taxation).

- Is the legal body subject to tax on its worldwide income?

Resident legal body is subject to tax on its worldwide income.

M. Treatment of Tax Losses

- How are tax losses treated?

There are two types of losses that can be incurred in the context of business or investment.

1. Loss on disposal of an asset or liability of a business or investment
2. Overall loss of a business or investment.

An unrelieved loss from a business can be deducted from any other business and can be carried forward for 6 years. A reduced rate loss (i.e., loss incurred from a business for which a reduced rate is available in IRA) can only be set off against the same reduced rate or lower reduced rate profit or exempt profit.

Gain from realization of an investment asset cannot be deducted by any loss on disposal of another investment asset.

N. Wealth Tax

- Is there an applicable wealth tax?

There is no applicable wealth tax.

O. Withholding Taxes

- What are the rates of withholding tax on the legal body's activities?

The following withholding taxes apply to legal bodies conducting business.

	Withholding tax rate
Dividends	14%
Interest	5%
Royalties	14%
Rent	10%
Service fee/ Technical fee	5%

XV. General Tax Considerations

A. Taxes Generally

- Is there a generally accepted way of structuring the company or other entity so as to insure the desired tax consequences?

Structuring companies to insure a desired tax consequence is permitted. However, if the CGIR is of the view that a transaction or scheme has reduced or has the effect of reducing the tax payable is artificial or fictitious, the CGIR can make compensating adjustments to the tax liability affected by the scheme.

- Is there an advance tax ruling that can be used to validate or invalidate the chosen form of doing business?

A taxpayer can request a public ruling concerning the administration of the provisions of that Act by the DIR. The taxpayer is also given the opportunity to apply for a private ruling from the CGIR concerning the application of the provisions of that Act to a transaction entered into, or proposed to be entered into, by that taxpayer. Private and public rulings are not binding on the taxpayer, but private rulings are binding on the DIR against the taxpayer requesting that private ruling (but they are not binding against any other taxpayer). Public rulings are binding on the DIR.

- Is there a general anti-tax avoidance system?

Tax avoidance within the provisions of the IRA is permitted. However, if the CGIR is of the view that a transaction or scheme has reduced or has the effect of reducing the tax payable is artificial or fictitious, the CGIR can make compensating adjustments to the tax liability affected by the scheme.

- Can the chosen form of business be treated as a deferent form for tax purposes?

The chosen form of business cannot be treated as a deferent form for tax purposes.

XVI. Immigration Requirements

A. Immigration Controls

- Are there immigration quotas?
- Are vaccinations required?
- Are medical certificates required?
- Are entry permits required?
- If so, must you apply for an entry permit before entering the country?
- Are exit permits required?
- Are re-entry permits required?

There are no such quotas however when it comes to work visas for entities registered under the BOI, then the number of visas issued to a specific entity shall depend on the cadre approval that has been obtained for that specific entity.

Generally there are no vaccinations or medical certificates required. A visa is required to enter the country. This could be in the form of Entry visa, 30 day Business Visa or a 30 day tourist visa. Entry permits or what is generally termed as entry clearance or entry visas are required when entering the country to subsequently obtain work visas. Such entry visas should be obtained prior to entering the country.

There are no exit permits required but re-entry permits will be necessary.

B. Immigration Requirements/Formalities

- Is a residence permit required?
- If so, does the investor have to apply for one before entering the country?
- What information must be supplied to the immigration authorities?
- How long does it take to receive authorization?

Work permits which are a category of Residence visas are required for foreign investors, directors and employees of local entities. Work permit can be obtained once the investor is in the country, however prior to this recommendation from the relevant line ministry or if the company is BOI registered then recommendation from the BOI should be obtained. The documents that should be submitted to the Department of Immigration shall be as follows:

1. Dully filled residence visa application form
2. Original Passport
3. Photo capture paper
4. Request letter on Company letterhead
5. 3 photographs of the applicant
6. Bio data of the applicant
7. Company Incorporation Certificate, Articles of Association of the Company and other company forms indicating details about shareholders and directors.
8. The recommendation letter issued by the relevant line Ministry or Government Authority
9. Processing fee (LKR 20,000)

It usually takes 5 working days to receive the duly stamped passport with the residence visa (work permit) provided the prerequisites of recommendation letter and entry visa has been fulfilled.

C. Visas

- Is a visa required for travel or stay in the country?
- If so, for how long is the visa valid?
- How does the investor apply for a visa?
- What documents are required?
- How long does it take to receive a visa?
- What fees are involved?

A foreigner requires a visa to stay or travel in the country. An entry visa which later should be converted to a residence visa, a business visa and a tourist visa is valid for a period of 30 days. A residence visa is valid for a period of one year.

XVII. Expatriate Employees

A. Cost of Living and Immigration

- How does the cost of living compare to that in the investor's home country?
- What is the rate of inflation?

The cost of living in Sri Lanka is 126.5 in June 2018 according to the National Consumer Price Index. And the current inflation rate in Sri Lanka is 2.5% in June 2018 according to the Central Bank.

B. Drivers' Licenses

- Must the investor obtain a driver's license for that country?
- How does the investor obtain a driver's license?
- What fees are involved?
- Is an examination, either practical or written, required?

An investor should obtain a driver's license from the Department of Motor Traffic. A foreign license can be converted but this can be obtained only for light vehicles.

The applicant/investor should have a valid visa for a period of more than 6 months, in order to be eligible to obtain a conversion of the foreign Driver's License. In the event the visa is valid for a period less than 6 months he will only be issued with a temporary driving license.

The following should be submitted:

1. Medical fitness certificate obtained from the National Transport Medical Institute, within a period of six months.
2. The letter of acknowledgment from the Ministry of Foreign Affairs, in the event of a person in the foreign Diplomatic service.

C. Education

- What types of schools are available for the investor's family?
- What fees are involved?
- What is required for enrollment?
- Can the investor or company receive a tax benefit?

International schools are available for the investor's and the fees may vary in each school. Birth Certificate of the child, valid passports with duly stamped visa etc. may be required by the school administration prior to enrolling a child.

There are no tax benefits the investor company can receive based on this.

D. Housing

- What type of housing is available for the investor?
- Can the investor own property?
- Must the investor have housing before entering the country?
- Can the investor subsidize housing and receive a tax benefit?

As foreigners cannot own property in Sri Lanka except under specific conditions the one way to facilitate housing of foreigner is through the condominium properties available. According to the Apartment Ownership Act an apartment above the fourth floor can be obtained by a foreign national. Either this or they could occupy housing on rent by entering into Rent Agreements. There is no necessity for an investor to have housing before entering into the country. The investor cannot subsidize housing and receive tax benefits.

E. Importing Personal Possessions

- How can the investor import personal belongings?
- Are import duties payable?
- Are there requirements for clearing the belongings through customs?

Subject to the rules and regulations imposed by the Sri Lanka Customs an investor can bring into the country their personal belongings. There are duties applicable as set by the Customs Regulations.

F. Medical Care

- What level of
- medical care is available?
- Is there national health care?

There is free healthcare available in Sri Lanka

G. Moving Costs

- What costs are involved in moving?
- Can the investor receive any tax allowances?

The investor does not receive any tax allowance in relation to moving costs. No specific cost can be stated as moving costs, however cost of transportation can be assessed as part of the moving cost.

H. Tax Liability

- What is the expatriate's tax liability? (See also Section XIII)
- What are the allowances?
- Are there any applicable tax treaties?

The tax liability will depend on whether the expat has residence visa. If an individual derives an income from Sri Lanka and is on a valid residence visa (work permit). This would generally be the income tax that would be imposed on the income derived. Other taxes would be the basic NBT (National Building Tax) and VAT (Value Added Tax) that are imposed on services and goods. Sri Lanka is party to many treaties which avoids double taxation.

I. Work Contracts

- Does the investor need a work contract to work in the country?
- If so, does the contract have to be for a certain duration, for the performance of a specific job or for a specific position?
- Does the contract have to be with a national or resident of the country or related state?

An investor does not require a contract. However if a foreigner works as an employee of a local entity, then a contract of employment should be provided at the point of requesting for recommendation from the relevant line ministry to obtain recommendation for entry and residence visa.

J. Work Permits

- Does the investor need a work permit to work in the country?
- How and where does the investor apply for the permit?
- What documents are required?
- What fees are involved?
- How long does it take to receive the permit?

- For how long is the permit valid?

An investor requires a work permit to work in Sri Lanka. There are three steps to be followed when making an application for a work permit.

- Recommendation for visa from the relevant line ministry
- Entry clearance/ entry visa
- Residence visa (work permit)

Each line ministry will have their own separate set of documents that they will require. Usually passport copies, CV of the investor, details of investment made, request letter on company letterhead, incorporation certificate and articles of association of the company and other relevant company documents etc.

For the purpose of obtaining the Residence Visa (work permit) the following documents should be submitted to the Department of Immigration and Emigration.

- Duly filled application form
- 3 coloured passport sized photos
- Recommendation issued by the relevant line Ministry
- CV of the applicant
- Certificate of Incorporation, Articles of Association, Form 20 etc.
- Original passport

Some entities such as the BOI and the Department of Trade and Commerce charges for the recommendation letters they issue. There will be a nominal fee charged for Entry visa and the residence visa (work permit) shall cost around 20,000 LKR. The recommendation letter can be obtained within 6 -8 weeks, entry visa can be obtained within 3 – 4 working days and the final step of obtaining residence visa can be done within a period of 5 working days. A residence visa (work permit) is valid for a period of one year.