



Impact of Major Changes of New IRD Act and Recent Amendments made to VAT & NBT for Construction Industry

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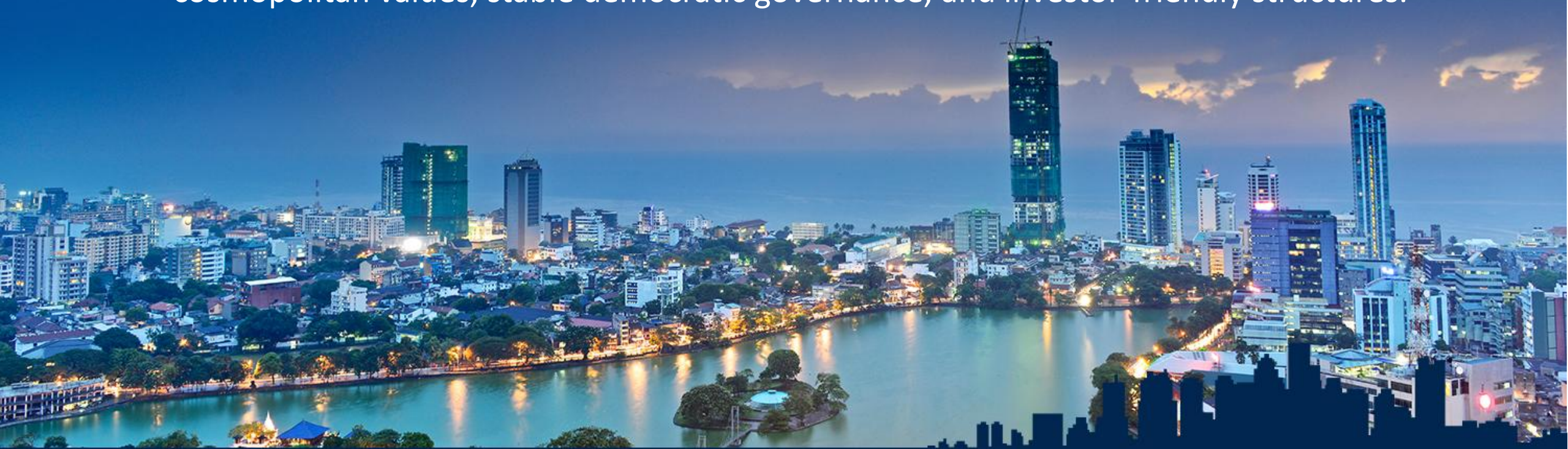
Overview

- Key Economic Indicators
- Trends in Real-estate & Construction Market
- Real-estate & Construction Market in Sri Lanka
- Real-estate & Construction Industry Contribution
- Real-estate & Construction Industry Taxes
 - Income Tax Rates
 - VAT Implications
 - NBT Implications
 - Economic Service Charges

Colombo, Sri Lanka : A Vibrant Capital

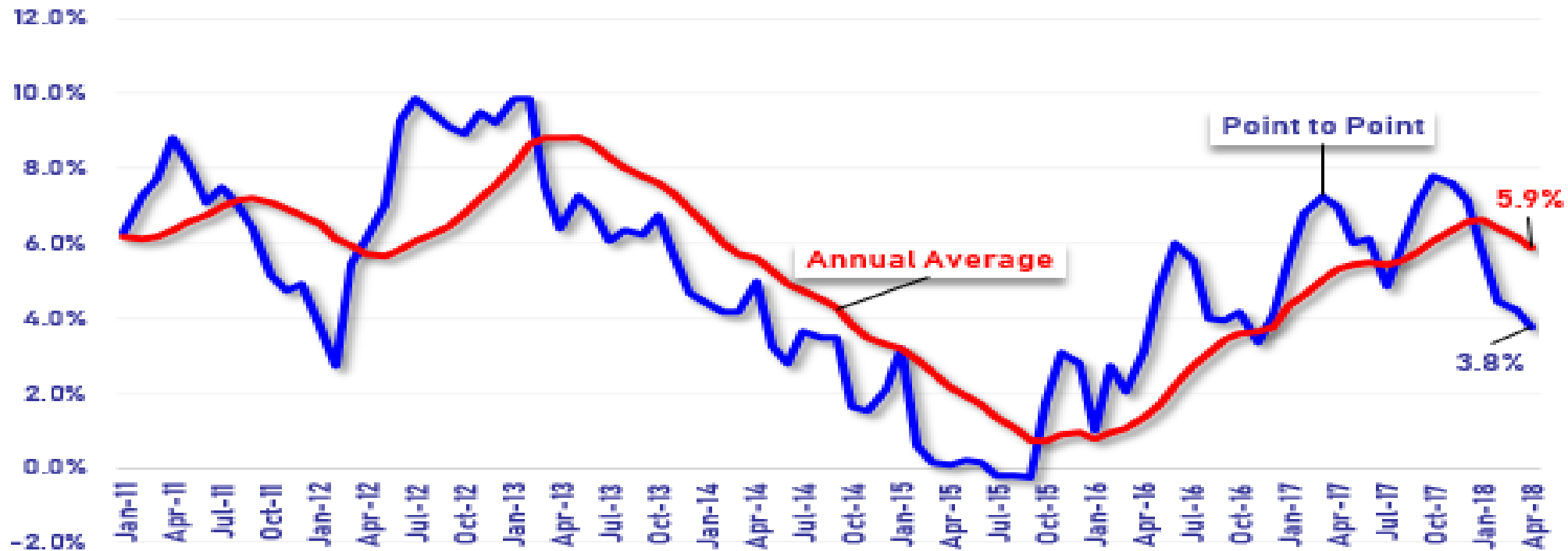
Today, the city of Colombo is also known as a “Commercial Hub City” for its massive amplification in infrastructure development.

It boasts a highly educated workforce, a clean and verdant environment, modern cosmopolitan values, stable democratic governance, and investor-friendly structures.



Key Economic Indicators - Inflation

Sri Lanka Inflation (Based on CCPI) – April 2018



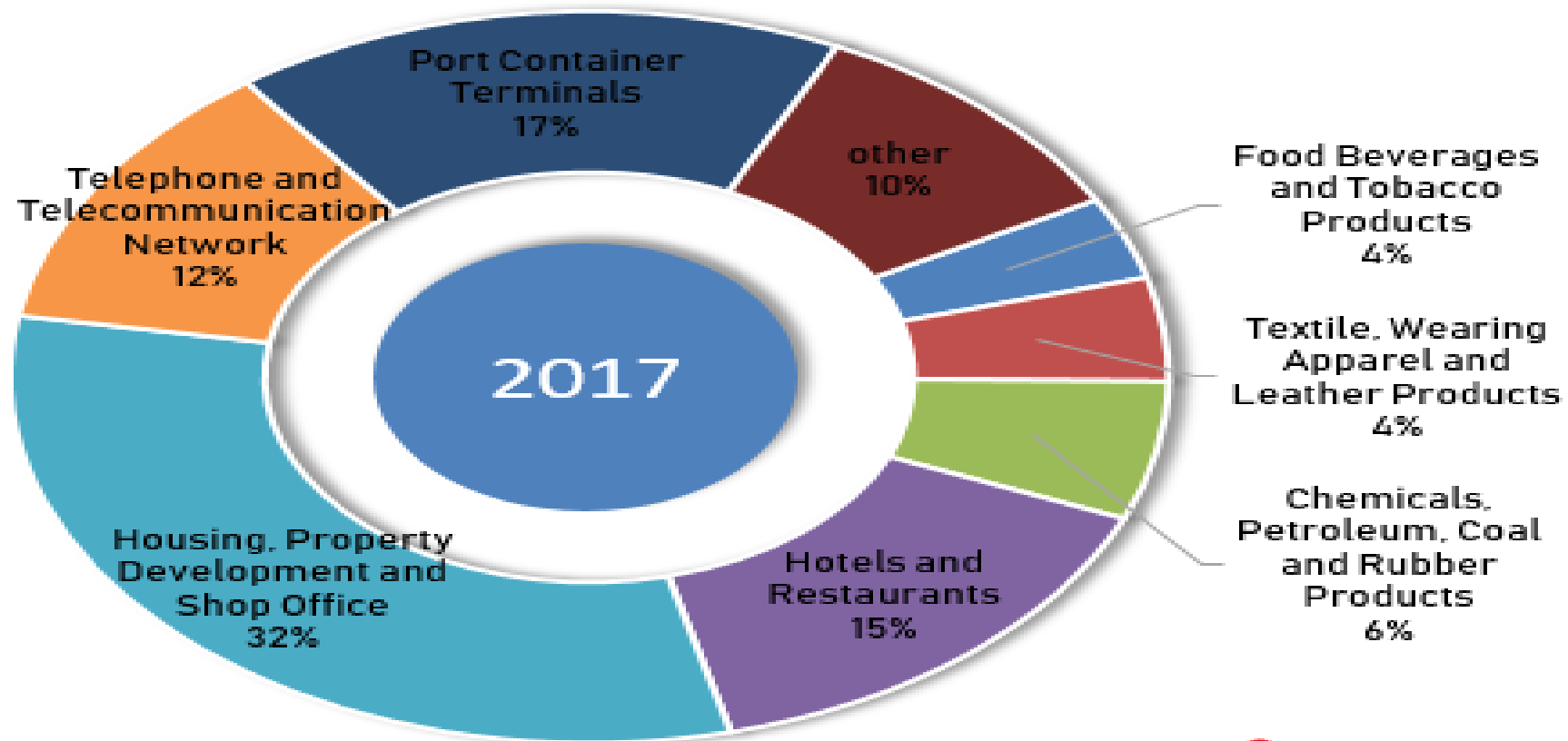
Source : DCS



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Key Economic Indicators - FDI- Sri Lanka

Foreign Direct Investment of BOI Enterprises by Sector (\$ Mn)

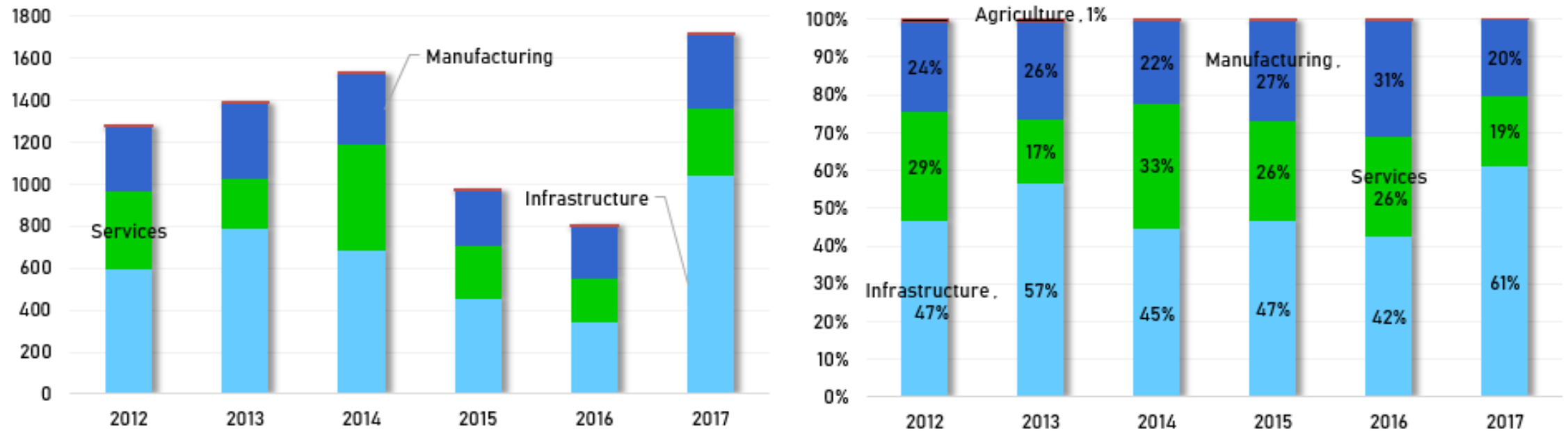


Source : CBSL Annual Reports



Key Economic Indicators - FDI History

Foreign Direct Investment of BOI Enterprises by Sector (\$ Mn)

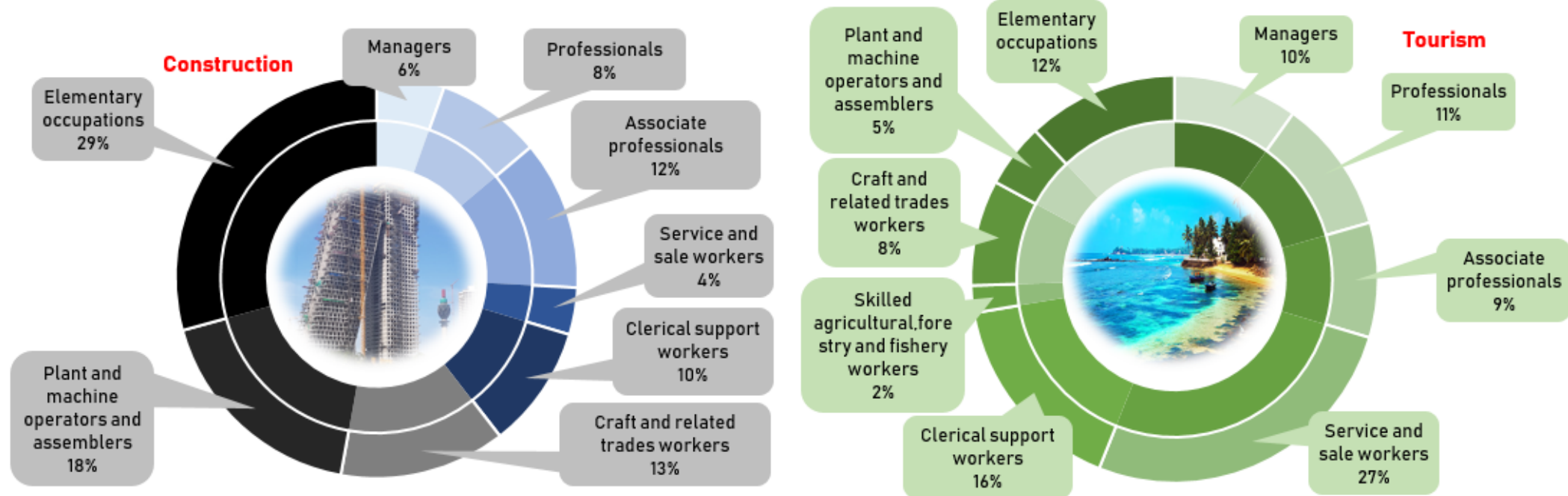


Source: CBSL Annual Reports Note: Includes loans, excludes inflows to non-BOI companies and direct investment in listed companies in the CSE



Key Economic Indicators - Employment

Distribution of the employments by occupation group 2017- Sri Lanka

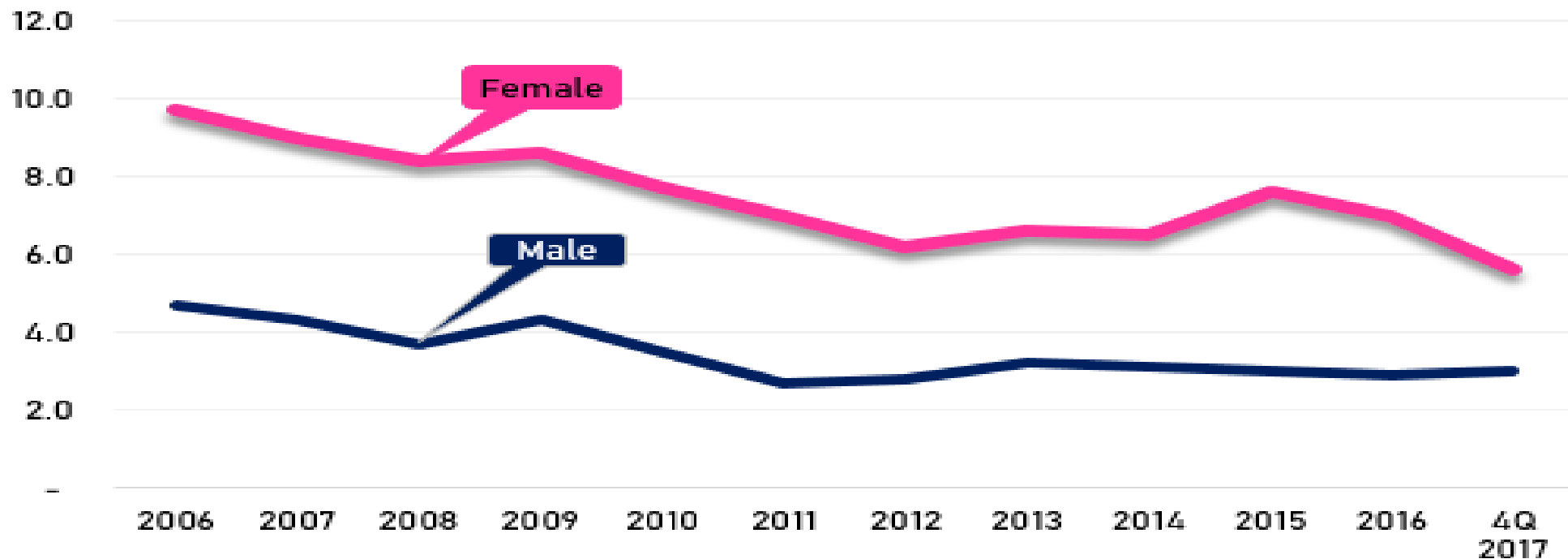


Source : DCS - LDS 2017



Key Economic Indicators - Employment

Sri Lanka : Unemployment (Gender)



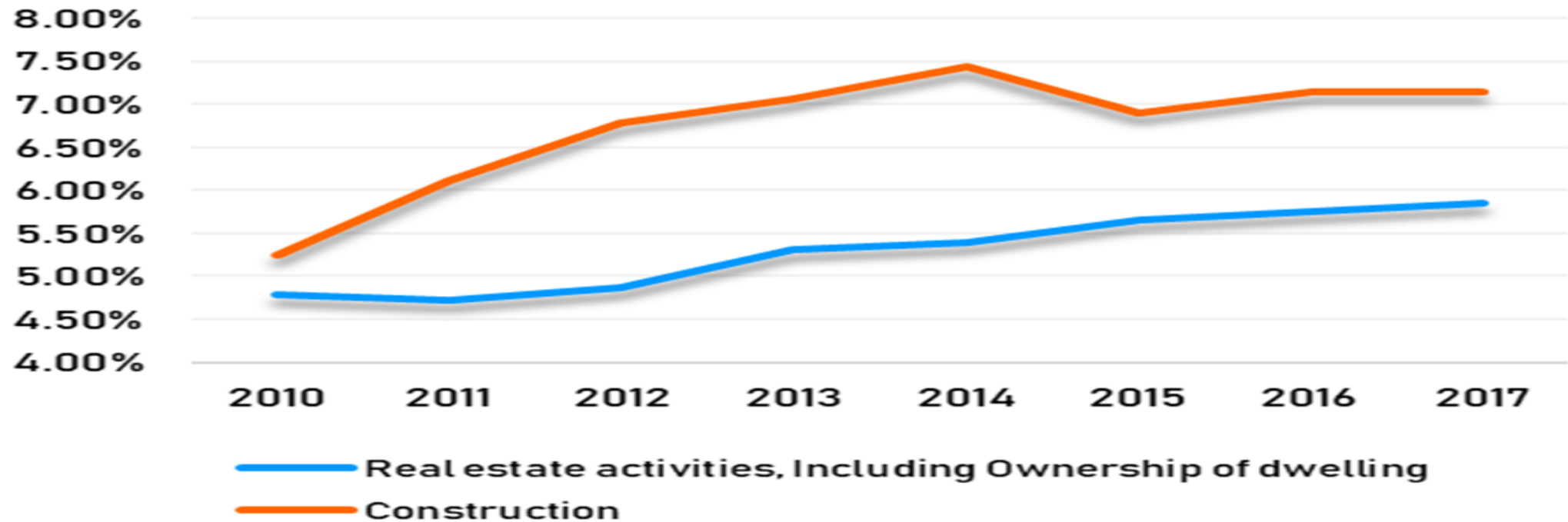
source: DCS



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Key Economic Indicators

Composition in GDP

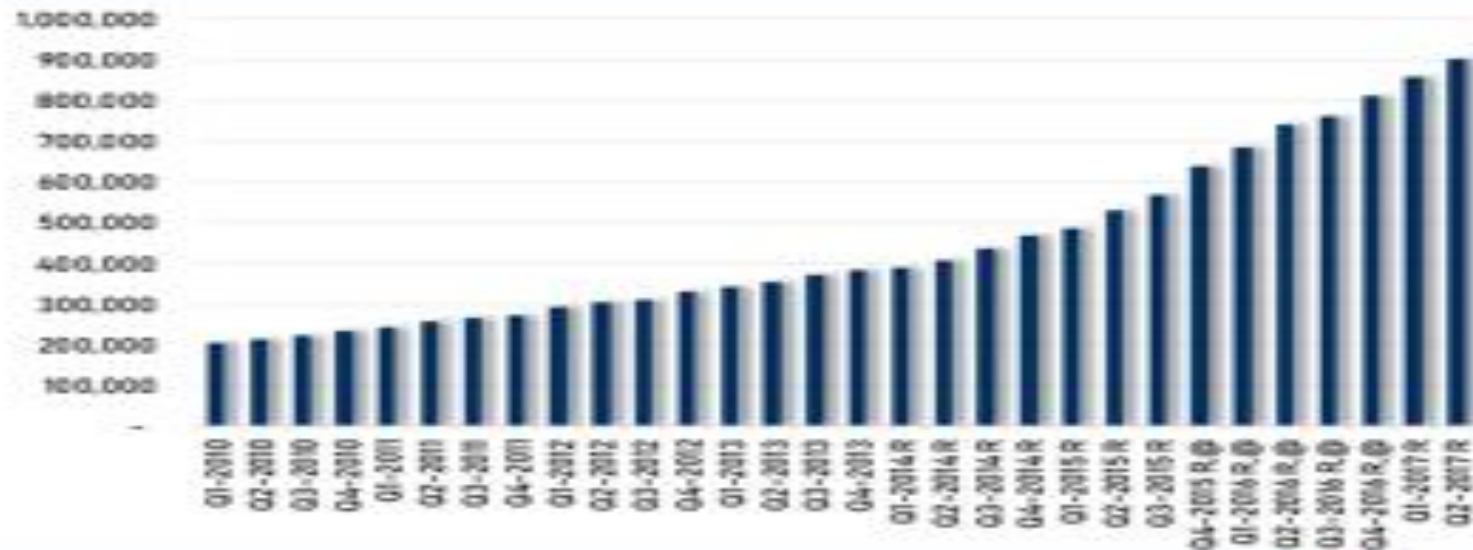


Source: CBSL



Key Economic Indicators

Loans granted to Construction (Rs. Mn)



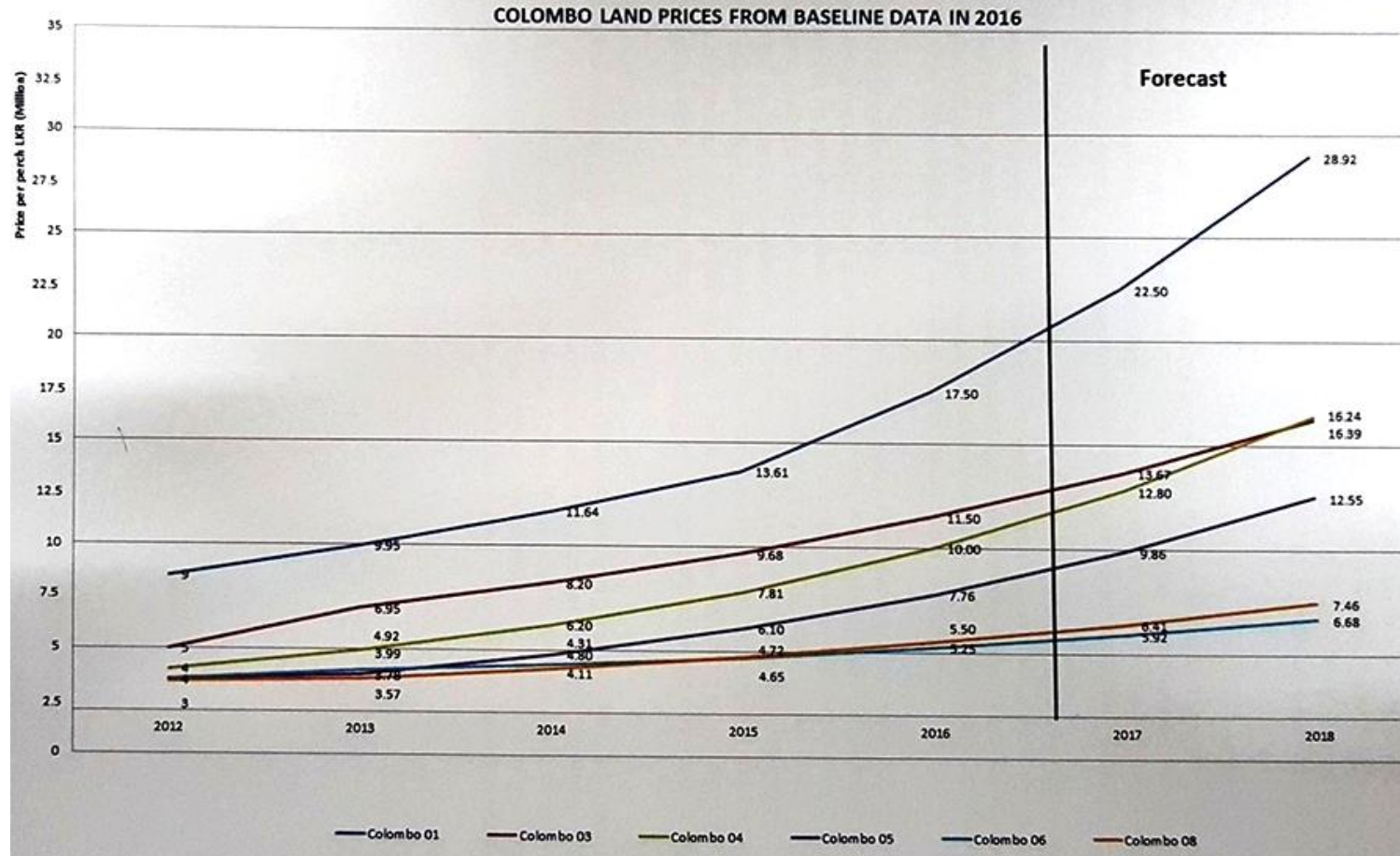
Source: CBSL



Trends in Real-estate & Construction Market

- 1) Increasing land prices due to scarcity of lands
- 2) Expatriates choose Sri Lanka as their second home
- 3) Increase in Global Investors and their investments
- 4) Locals invest in Condos for rental yields
- 5) Aged Citizens feel secure and convenient in condominiums

Real-estate & Construction Market in Sri Lanka



Land in Demand

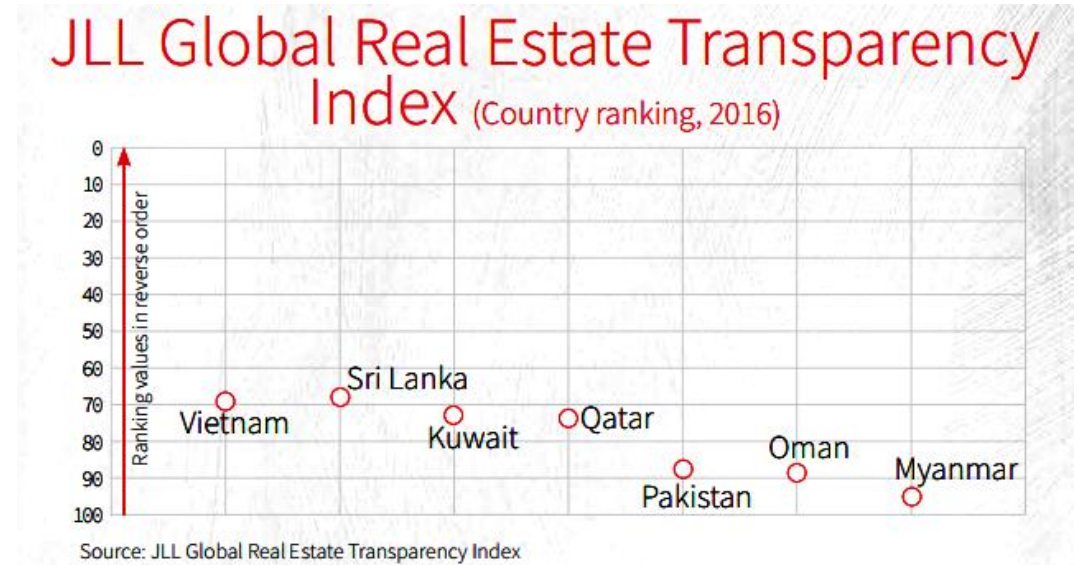
As per the study by RIU, with the current drive to modernize city, the land price rates were experienced in Colombo 03, 04, 02 and 01 remaining the most expensive due to non-availability of land for new developments.

(Annual Report – RIU, 2017)

Real-estate & Construction Market in Sri Lanka

- For a growing high and middle income population, luxury housing is a key attraction in residential markets. Demand for such housing is derived from a growing urban wealthy demographic. In addition to this, non-resident Sri Lankans (NRSs) are keen to invest in their country of origin also drive demand.

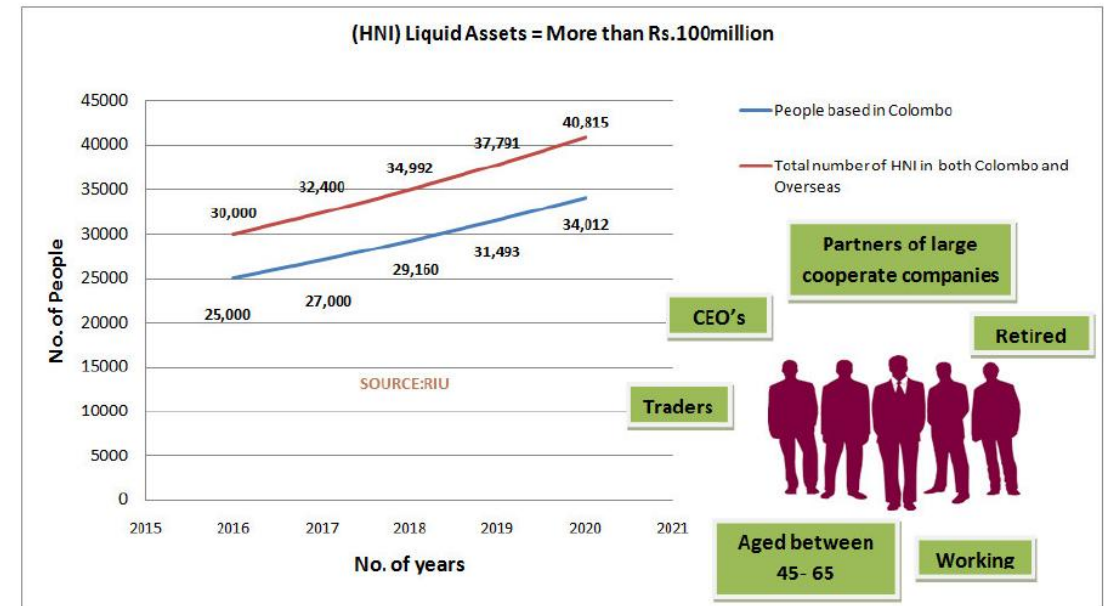
(Real-estate and Land Opportunities – JLL, 2017)



Real-estate & Construction Market in Sri Lanka

- Expatriates revisiting Sri Lanka : Ageing Population in aboard who are suffering with the climate changes are finding Sri Lanka as their alternative second home.
- Growing pollution problems plaguing cities in China and Middle East, were concerned about food safety and water security in the country.
- Finest education and good medical facilities has attracted many foreigners to invest and reside in Sri Lanka.
- Investors who made previous purchases of condos have tasted the market by earning greater capital gains in the past and looking forward to invest more.

Target Audiences



Real-estate & Construction Industry Contribution

- Providing skill development and graduate learning opportunities
- FOREX earnings to the country when construction industry experienced employees securing jobs overseas
- Provide skilled and unskilled employment opportunities
- Financial Institution, Insurance and other connected industries benefit with the development of the industry
- Infrastructure development of the country
- Contributor for the growth of the country's GDP
- Condominium projects bring FOREX to the country
- Development of the rural economies

Real-estate & Construction Industry Taxes

Taxes	Developer	Customer
Stamp Duty	Yes	Yes
VAT	Yes	Yes
NBT	Yes	-
PAL	Yes	-
Economic Service Charges	Yes	-
Income Tax	Yes	-

- The Real estate and the construction industry is burdened with various taxes and levies and sustainability has become a question.

Income Tax Rates

	Prior to 1 st April 2018	After 1 st April 2018
Construction	12%	28%
Condominium	<i>BOI Companies are Exempted</i>	<i>28% No Income Tax Exemptions Granted</i>

- With the increase tax rates the construction industry will have to pay a higher tax than the previous years
- Introduction of 10% capital gains
- This will slow down the foreign and local investments in the industry.

VAT Implications

	Prior to 1 st April 2018	After 1 st April 2018
Residential Accommodation	Exempted	15% *

* This has been extended by One Year

- This will result in increasing prices of residential accommodation and burden the buyers.
- This may slow down the industry due to affordability of the buyers.

NBT Implications

	Prior to 1 st August 2017	After 1 st August 2017
Construction	Exempted	2 % (on turnover)
Residential Accommodation	Exempted	2 % (on turnover)

- NBT has a cascading effect, same like the Turnover Tax in the past
- Increasing cost of the projects.

Economic Service Charges

- From 1st April 2017, all companies are liable to pay ESC as at 0.5% (previously 0.25 percent) of the Turnover.
- Any unclaimed ESC credit can be carried forward for 2 years (down from 4 years) to be set-off against Income Tax.
- This has an impact on the construction industry which is suffering from liquid cash-flows.

Thank You