

1. Government requirements

Registration requirements

Employment taxes - Advance Personal Income Tax (APIT)

The Government of Sri Lanka introduced the Advance Personal Income Tax (APIT) system, replacing Pay-As-You-Earn (PAYE) with effect from 1st January 2020 for tax deduction on employment income.

- Non-citizen of Sri Lanka: Mandatory tax deduction under APIT
- Nonresident (irrespective of the citizenship): Mandatory tax deduction under APIT
- Resident and citizen of Sri Lanka: Optional APIT
- For all: Terminal benefits are subject to mandatory tax deduction under APIT

All mandatory and terminal benefits tax deduction should be as per the prescribed tax tables issued to employers.

The tax-free allowance and tax slabs are as follows:

Taxable income	Tax rate
Tax-free allowance up to LKR3,000,000	Nil
Next LKR3,000,000	6%
Next LKR3,000,000	12%
On balance	18%

Registration requirements

The following documents should be submitted to the relevant branch of the Department of Inland Revenue for APIT Registration

- Copy of Taxpayer Identification Number (TIN) Certificate
- Duly completed application form for tax type registration (Tax type-APIT)

Ongoing compliance requirements

- Remit to the Commissioner General monthly tax deduction made under the APIT Scheme, not later than the 15th day of the month immediately following.
- Issue certificate of tax deduction (T10) to all employees annually by 30 April.
- Furnish Annual Declaration to the Commissioner General not later than 30

April every year.

- Keep in safe custody the documents relating to every payment made to employees. Whenever officers authorized by the Commissioner General call for inspection, such documents should be made available to them.

2. Pension requirements

Registration requirements

Registration for Employees Provident Fund (EPF) and Employees Trust Fund (ETF)

Organizations must register with the Department of Labor to obtain the registration number. The fund is government-owned and maintained by the Central Bank. Organizations should complete "Form-D" in duplicate with the business registration certificate within 14 days of recruitment of the first employee for EPF registration. Registration for ETF can be applied once the company receives the EPF registration number.

Gratuity

The Payment of Gratuity Act No. 12 of 1983 provides for the payment of gratuity by employers to their employees under the Amendment to the Land Acquisition Act, the Land Reform Law and the Industrial Disputes Act. The Act has two parts:

Part I applies to workers in the plantation sector who ceased to be employed upon the takeover of estates or lands which were vested in the Land Reform Commission.

Part II of the Act states that every employer who has 15 or more workers on any day during a 12 month period is liable to pay gratuity.

If the employee has completed five years or more of service prior to termination, the employer must pay that employee within a period of 30 days, half a month's wages or salary for each year of completed service.

The gratuity will be calculated against the last month's wage drawn by that employee.

The Amendment Act No. 41 of 1990 has provided for the payment of gratuity to employees of public corporations and government owned business undertakings if they are converted into public companies.

Pension scheme

There is no pension scheme for private sector employees in Sri Lanka.

Ongoing compliance requirements

Employees Provident Fund (EPF)

Calculation of the contributions are as follows:

- Employee's contribution: 8% of the total monthly earnings (to be deducted from the employee's salary/wage)
- Employer's contribution: 12% of the total monthly income of the employee (to be paid totally by the employer)
- Total contribution per employee will be 20% of the employee's total monthly earnings. Payments should be made before the last working day of the month, immediately following the month for which the salary should be made.

Payment of contributions

1. Manual payments

Organizations should obtain three copies of "Form-C" (issued free) from the nearest labor office or download from the EPF website and complete in triplicate.

The original and a copy of "Form-C" should be submitted to the collection counter of the EPF at the ground floor of the Lloydz Building in Fort with a check written in favor of the "The Superintendent, EPF." A receipt should be obtained and should be kept for future reference.

2. Online payments

Organizations can register with the respective banks where online EPF payment facility is available, and make the monthly contributions online.

EPF e-Return System

According to the EPF (amendment) Act No. 2 of 2012 and regulations gazetted in May 2013, all employers with more than 50 employees are required to submit their employees' EPF contributions and member details on a monthly basis in an electronic return system.

EPF has introduced the EPF e-Return system, a total paperless solution for employers to send the EPF returns. Under this scheme, employers are requested to submit two simple text files monthly according to the

specified format. No forms are required to be submitted for EPF returns once the employer joins this scheme.

Every employer with access to computer facilities can create their EPF returns using a specified format. Employers are free to use any computer system or any tool to create these files. EPF provides only the guidelines.

Employees Trust Fund (ETF)

- Employer's contribution: 3% of the total monthly earnings (not to be deducted from the employee's monthly salary/wages).

Employers are divided into two categories

- Larger category: Employers with 15 or more employees
- Smaller category: Employers with less than 15 employees

Employers with more than 15 employees must use the R1 Remittance Form and employers with less than 15 employees may use the R4 Remittance Form when they make monthly contributions.

Monthly contributions should reach ETF Board on or before the last working day of the following month. Employers who are liable to contribute to the ETF under remittance Form R1 are required to furnish half-yearly return incorporating details of contributions made on behalf of its employees in respect of each month in the following manner.

- First half year return (January to June) should be submitted on or before 31 August of the same year.
- Second half year return (July to December) should be submitted on or before 28 February of the following year.

3. Employment obligations

Minimum wage

The national minimum monthly wage for all workers in any industry or service shall be LKR10,000 and the national minimum daily wage of a worker shall be LKR400.

Annual leave

An employee is entitled to take annual leave when the next calendar year starts. The duration of that first annual leave period is determined according to the date/month on which the employment commenced. From the second year onward, an employee is entitled to 14 days of paid annual leave, after completion of 12 months of continuous service.

Weekly rest days

Workers are entitled to at least one and a half days of rest per week at the worker's full rate of remuneration. However, the entitlement of full remuneration is not applicable to workers who have worked for less than 28 hours, exclusive of overtime work.

Weekly rest day is not specified in the act. The rest day can be postponed and taken in five weekly blocks, provided that the Commissioner is satisfied that such postponement is necessary by reason of the nature of the business or for unforeseen circumstances.

4. Payroll payments and pay slips

- Employees must be paid at least monthly.
- All employees must be provided payslips. Payslips can be provided either in electronic form or hard copy. The electronic form must have the same information as the hard copy.
- Salary and wage income is taxable in the financial year in which it is actually received, regardless of when it was earned.

5. Banking requirements related to payroll

Banking of salary and wages

Payroll payments can be paid by one or combination of:

- Cash
- Check, money order or postal order, payable to the employee
- Electronic funds transfer