

SECOND SCHEDULE

INVESTMENT INCENTIVES

Enhanced Capital Allowances

1. (1) A person who invests in Sri Lanka (other than the expansion of an existing business) during a year of assessment shall be granted enhanced capital allowances computed in accordance with this paragraph, in addition to the capital allowances computed under the Fourth Schedule.

(2) A capital allowance of 100% of the expenses incurred by a person on depreciable assets, other than intangible assets during a year of assessment shall be granted to that person for that year if the total expenses incurred by that person during that year on depreciable assets (other than intangible assets) that are used in a part of Sri Lanka other than the Northern Province exceeds USD 3 million but does not exceed USD 100 million.

(3) A capital allowance of 150% of the expenses incurred by a person on depreciable assets other than intangible assets during a year of assessment shall be granted to that person for that year if the total expenses incurred by that person during that year on depreciable assets (other than intangible assets) that are used in a part of Sri Lanka other than the Northern Province exceeds USD 100 million.

(4) A capital allowance of 200% of the expenses incurred by a person on depreciable assets other than intangible assets during a year of assessment shall be granted to that person for that year where the total expenses incurred by that person during that year on depreciable assets (other than intangible assets) that are used in the Northern Province exceeds USD 3 million.

(5) A capital allowance of 150% of the expenses incurred by a person on assets or shares of a state owned company during a year of assessment shall be granted to that state owned company for that year if the total expenses incurred by that person during that year on assets of a state owned company that are used in a part of Sri Lanka exceeds USD 250 million.

(6) Capital allowances arising under a subparagraph of this paragraph 1 with respect to a particular year of assessment cannot be accumulated with another subparagraph and shall be taken in that year and shall be deferred to a later year of assessment.

Extended Period for Deducting Unrelieved Losses

(7) Subject to the provisions of subparagraph (9), and despite subsection 19(1), where enhanced Capital allowances computed under

this paragraph and deducted under section 16 result in an unrelieved loss for a person, that unrelieved loss may be deducted by that person for the purposes of calculating the person's income from a business for a year of assessment in any of the succeeding ten years of assessment.

(8) Notwithstanding anything in subsection (1) of section 19, where a person has incurred more than USD 1,000 million on depreciable assets (other than intangible assets) in Sri Lanka or entitled to enhanced capital allowances under subparagraph (5) of this paragraph in respect of which enhanced Capital allowances have been computed under this paragraph and deducted under section 16 resulting in an unrelieved loss for a person, that unrelieved loss may be deducted by that person for the purposes of calculating the person's income from a business for a year of assessment in any of the succeeding twenty-five years of assessment.

Assessable Charges and Balancing Allowances

(9) Where an asset for which Capital allowance has been granted under this paragraph is disposed of (or deemed to be disposed of) during a year of assessment –

- (a) if the consideration received for the disposal exceeds the written down value of the asset, the excess shall be included in calculating a person's income for a year of assessment from a business in which the depreciable assets are or were employed; and
- (b) if the written down value of the asset exceeds the consideration received for the disposal, an additional Capital allowance shall be granted for the year in an amount equal to the excess.

(10) In this paragraph-

“Capital allowance expenditure” means expenditure for which Capital allowances are available under this Schedule; and

“state owned company” means any company, where fifty *per centum* or more of the shares are held by the Government and includes a company of which forty *per centum* or more of the shares held by the Government are acquired by a person for an amount not less than USD 250 million; and

“written down value” of an asset means the cost of the asset less all Capital allowances granted with respect to expenditure included in that cost.

Exemption of Certain Dividends from Withholding Tax

2. Notwithstanding anything in the First Schedule, the rate of tax to be withheld from a dividend paid by a company to a non-resident member shall be zero, if the company paying the dividend has incurred more than USD 1,000 million on depreciable assets (other than intangible assets) in Sri Lanka or entitled to an enhanced capital allowance under subparagraph (5) of paragraph 1, and that dividend is paid out of profits sheltered by enhanced Capital allowances under this Schedule.

Exemption of Employment Income from Withholding Tax

3. Notwithstanding anything in the First Schedule, the rate of tax to be withheld from a payment made by an employer to an expatriate employee shall be zero, if the company paying the dividend has incurred more than USD 1,000 million on depreciable assets (other than intangible assets) in Sri Lanka or entitled to an enhanced capital allowance under subparagraph (5) of paragraph 1, and that dividend is paid out of profits sheltered by enhanced Capital allowances under this Schedule, where the number of expatriate employees is not exceeding twenty.

THIRD SCHEDULE

EXEMPT AMOUNTS

The following shall be exempt amounts:-

- (a) amounts derived by –
 - (i) the Government of Sri Lanka or a local authority, including any Government department;
 - (ii) the Central Bank of Sri Lanka, including the Monetary Board;
 - (iii) any University which is established or deemed to be established under the Universities Act, No. 16 of 1978 or the Buddhist and Pali University of Sri Lanka Act, No. 74 of 1981;
 - (iv) any Government assisted private school other than that incorporated under the Companies Act, No. 7 of 2007 which is registered with the Ministry of Education and mandated to follow the Circulars and mandated to follow the Circulars issued by Government and the Ministry of Education;
 - (v) any registered society within the meaning of the Co-operative Societies Law, No. 5 of 1972;
 - (vi) the Government of a foreign country of foreign territory to the extent specified under a diplomatic immunities law or a similar law;
 - (vii) an international organisation to the extent specified under a diplomatic immunities law or a similar law or an agreement between the organisation and the Government of Sri Lanka, provided that the exemption provided under the agreement shall be broader than that provided under diplomatic immunities law or a similar law;
- (b) capital sums paid to a person as compensation or a gratuity in relation to –
 - (i) personal injuries suffered by the person; or
 - (ii) the death of another person;
- (c) the pension of a person where the pension income is paid by the Government of Sri Lanka or a department of the Government of Sri Lanka;