



An Equus Software Company

GLOBAL EMPLOYER GUIDE

SRI LANKA





Basic Country Facts

Full name

- Democratic Socialist Republic of Sri Lanka

Capital

- Colombo
- Sri Jayawardenepura Kotte

Main Languages

- Sinhala
- Tamil
- English

Population

- 21.67 million

Monetary unit

- Sri Lankan rupee

Internet domain

- .lk

International dialing code

- +94

Currency

- Sri Lankan rupee



STATUTORY LABOR REQUIREMENTS

Probation Period

- There is no clear provision in labor laws on the duration of probation period in Sri Lanka.
- Generally, probation period is six months.

Public Holidays

- Duruthu Full Moon Poya Day (10th January)
- Tamil Thai Pongal Day (15th January)
- Independence Day of Sri Lanka (4th February)
- Navam Full Moon Poya Day (8th February)
- Maha Shivratri (21st February)
- Madin Full Moon Poya Day (9th March)
- Bak Full Moon Poya Day
- Good Friday (10th April)
- Sinhalese New Year (13th April)
- Puthandu (14th April)
- Labor Day (1st May)
- Vesak (7th May)
- Day following Vesak Full Moon Poya Day (8th May)
- Eid al-Fitr
- Poson Full Moon Poya Day (5th July)
- Nikini Full Moon Poya Day
- Binara Full Moon Poya Day
- Vap Full Moon Poya Day
- Prophet's Birthday
- Diwali
- Christmas Day (25th December)

Maternity Leave

- The duration of maternity leave is 12 weeks (84 days) excluding weekly holidays, Poya days and statutory holidays.

Paternity Leave

- In Sri Lanka, paternity leave for the state sector is limited to three days.

Sick Leave

- In accordance with the Shop and Office Act, every worker certified by a medical practitioner is entitled to a paid sick leave (sickness benefit) for a period of 07 days (in a 12-month period) for private business, ill-health or any other reasonable cause.
- These are generally known as casual leave.

Annual Leave

- The employee is permitted to 14 days of annual leave complete with the full salary for each concluded year of service.
- Employees are not entitled to annual leave on the first year of employment.
- Annual leave for the second year of employment is accrued based on the date the employee joined service.



Work Hours

- A normal working week cannot exceed 48 hours.
- All work over and beyond that period is considered overtime.

Overtime

- If a worker works beyond the stipulated working hours, he/she is entitled to an overtime pay that is 150% (1.5 of X) of the rate of his ordinary pay.
- The overtime hours in a week cannot exceed 12 hours.

Notice Period

- Notice periods, or payments in lieu of notice, for dismissal are typically stipulated in the contract of employment.
- However, where the provisions concerning notice periods, or payments in lieu of notice, are exercised by the employer during the course of an unjust dismissal, the employee can challenge that termination on the basis of unjust dismissal.
- In the case of a dismissal on disciplinary grounds, the Termination of Employment of Workmen (Special Provisions) Act No 45 of 1971 (TEWA) makes it mandatory for the employer to inform the employee, in writing, of the reasons for the dismissal before the expiry of the second working day after the dismissal has taken place.



Severance

- The quantum of compensation that may be awarded by the Commissioner of Labor (Commissioner) as a result of a successful application for unjust dismissal under the TEWA is regulated as follows, depending on the employee's length of service:
 - Employee with one to five years' service: 2.5 months' salary paid as compensation for each year of service competed (capped at 12.5 months' salary).
 - Employee with six to 14 years' service: 2 months' salary paid as compensation for each year of service competed (capped at 30.5 months' salary).
 - Employee with 15 to 19 years' service: 1.5 months' salary paid as compensation for each year of service competed (capped at 38 months' salary).
 - Employee with 20 to 24 years' service: 1 months' salary paid as compensation for each year of service competed (capped at 43 months' salary).
 - Employee with 25 to 34 years' service: 0.5 months' salary paid as compensation for each year of service competed (capped at 48 months' salary).
- The maximum severance payment that can be made under the above formula is LKR1.25 million.

13th Month

- 13th month pay is not mandatory

Income Tax

- An individual is subject to income tax on taxable income from employment, business, investment and other sources.
- The income subject to tax consists of the gains and profits from each such source of income.
- Resident individuals are taxed on the sources of income referred to above wherever the source arises.
- Nonresident individuals are taxed on the sources of income to the extent that the income arises in or is derived from a source in Sri Lanka.
- Tax rates for year of assessment 2018/19 are as follows:



Taxable income (LKR)		Tax rate (%)	Cumulative tax on the taxable income equal to the higher of the range (LKR)
Over	Not Over		
0	300,000	6	180,000
600,000	6,000,000	12	360,000
6,000,000	and above	18	-

- Concessionary tax rates apply to sums paid to an employee on cessation of employment when the scheme is uniformly applicable to all employees by way of compensation, commuted pension, retirement gratuity, and contributions to the Employees Trust Fund.
- Accumulated employers' contribution to an approved or regulated provident fund, when withdrawn, is exempt from tax.





Social Security

- Employers and employees are required to contribute specified percentages (employer 12%, employee 8%) of each employee's monthly emoluments/salary to the Employees Provident Fund (EPF) established by the government.
- Alternatively, employers and employees can contribute to certain private provident funds approved by the labor authority.
- Employers are also required to contribute a specified percentage (currently 3%) of each employee's monthly emoluments/salary to the Employees Trust Fund established by the government.

Contribution	Employer	Employee
Employees Provident Fund	12%	8%
Employees Trust Fund	3%	-



Deductible Expenses

- An individual is required to account for employment income on a cash basis for income tax purposes. No deductions are allowed from employment income.
- In computing taxable income, a deduction is allowed in respect of the following:
 - Donations in cash or kind to the government or identified government institutions/funds.
 - Cash donations to approved charities established for the provision of institutionalized care for the sick or the needy.
- Donations to the government can be deducted without any limitation during that year of assessment.
- The other deductions are subject to an upper limit of one-third of the taxable income or LKR 75,000, whichever is lower.
- Resident and non-resident individuals who are citizens of Sri Lanka are eligible to claim a tax free allowance of LKR 500,000, and relief of LKR 700,000 is available for a resident employee, up to the total of the employment income.

Deductible Expenses

Personal Deductions	<ul style="list-style-type: none">• In computing taxable income, a deduction is allowed in respect of the following:<ul style="list-style-type: none">◦ Donations in cash or kind to the government or identified government institutions/funds.◦ Cash donations to approved charities established for the provision of institutionalized care for the sick or the needy.• Donations to the government can be deducted without any limitation during that year of assessment.• The other deductions are subject to an upper limit of one-third of the taxable income or LKR 75,000, whichever is lower.
Standard Deductions	<ul style="list-style-type: none">• The other deductions are subject to an upper limit of one-third of the taxable income or LKR 75,000, whichever is lower.• Resident and non-resident individuals who are citizens of Sri Lanka are eligible to claim a tax free allowance of LKR 500,000, and relief of LKR 700,000 is available for a resident employee, up to the total of the employment income.

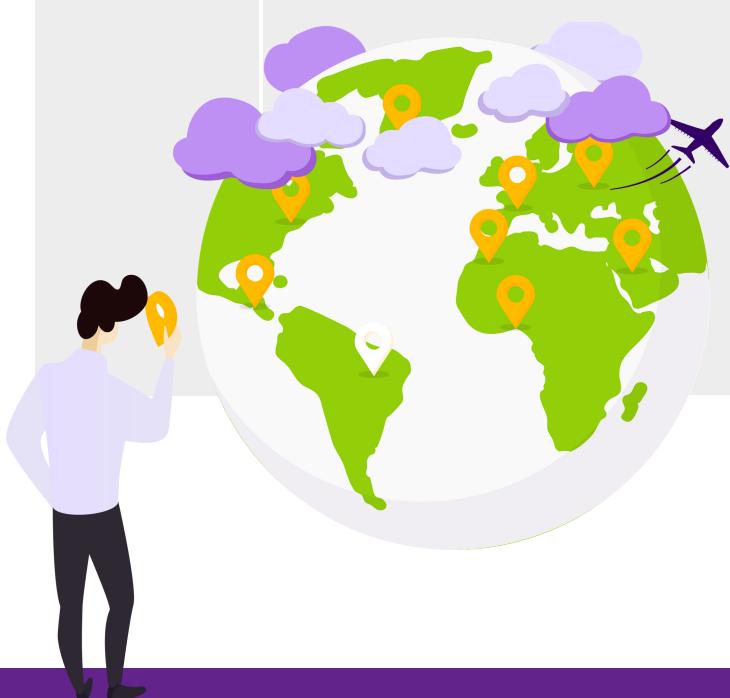


Immigration

- All foreign nationals must obtain visas (on-arrival visas or visas obtained prior to arrival) to enter Sri Lanka.
- Foreign nationals intending to work in Sri Lanka should obtain residence visas and work permits.
- Residence visas must be obtained by all foreign nationals intending to work in Sri Lanka.
- This type of visa is normally issued for one year and is renewable annually on the payment of LKR20,000.
- Applicants for residence visas should obtain entry permits from Sri Lankan missions in their home countries.
- They must submit applications for residence visas within one month after their arrival in Sri Lanka under entry visas.
- The approval of the relevant ministry that governs a particular activity or the BOI, as applicable, is critical in obtaining a residence visa.
- For example, if a foreign national wishes to pursue activities in Sri Lanka connected with the power and energy sector, the Sri Lanka Ministry of Power and Energy must approve the visa.
- The Department of Immigration and Emigration normally abides by the recommendations of the relevant ministry in deciding whether to grant a residence visa.
- With respect to employment in companies approved by the BOI, the BOI must recommend a residence visa for it to be issued.
- The BOI refers the application with comments to the Ministry of Defense and then to the Department of Immigration and Emigration, which issues a visa.
- Employers are responsible for applying for residence visas for expatriate staff.
- The Resident Guest Scheme is open to any foreign investor or foreign professional who wishes to contribute to the economic and sociocultural enrichment of Sri Lanka.
- Five-year visas are issued to individuals qualifying under the scheme.
- Application forms are available from the BOI and from any of the Sri Lankan missions abroad.
- Individuals applying for visas under the Resident Guest Scheme must undergo a medical examination prior to the visas' confirmation.



Type of Visa/ Permits	Documentation	Validity	Eligibility
Residence Permit	<ul style="list-style-type: none"> • BOI certificate • Request Letter from the representing Company • BOI Agreement • Company Registration certificate • Recommendation from the respective Ministry • A copy of the Bio Data Page of Your passport 	1 year (renewable); 5 years (under the Resident Guest Scheme)	<ul style="list-style-type: none"> • Residence visas must be obtained by all foreign nationals intending to work in Sri Lanka. • Applicants for residence visas should obtain entry permits from Sri Lankan missions in their home countries. • The Resident Guest Scheme is open to any foreign investor or foreign professional who wishes to contribute to the economic and sociocultural enrichment of Sri Lanka.
Employment Visa	<ul style="list-style-type: none"> • Completed visa application form • Letter from the employer in Sri Lanka confirming the employment and terms and conditions of employment • Business registration documents of the employer and copies of project documents, agreements if applicable • Visa recommendation letter issued by the relevant line Ministry, government institutions/ agency or Board of Investment (BOI) • Copy of the data page of the applicant passport 	1 year	<ul style="list-style-type: none"> • Foreigners to be employed in one of following organizations should have Employment Visa. <ul style="list-style-type: none"> ◦ Professionals and expatriate personnel (including their dependents) whose services are required for projects approved by the state and employed in projects under Board of Investment (BOI) of Sri Lanka ◦ Personnel employed at banks and their dependents ◦ Volunteers ◦ Personnel attached to Non-Governmental Organizations ◦ Personnel employed in diplomatic missions, UN and its specialized agencies, inter-governmental organizations and in projects under diplomatic missions in Sri Lanka ◦ Personnel employed in a private companies



Value Added Tax (VAT)

- VAT is payable on the prescribed valuations of imports and domestic supplies at a standard rate of 8%.
- Exports and certain specified international services are zero-rated.

GST	
Standard Rate	8%
Zero Rate	0%



Withholding Tax

Dividends

- Dividends are subject to 14% withholding tax

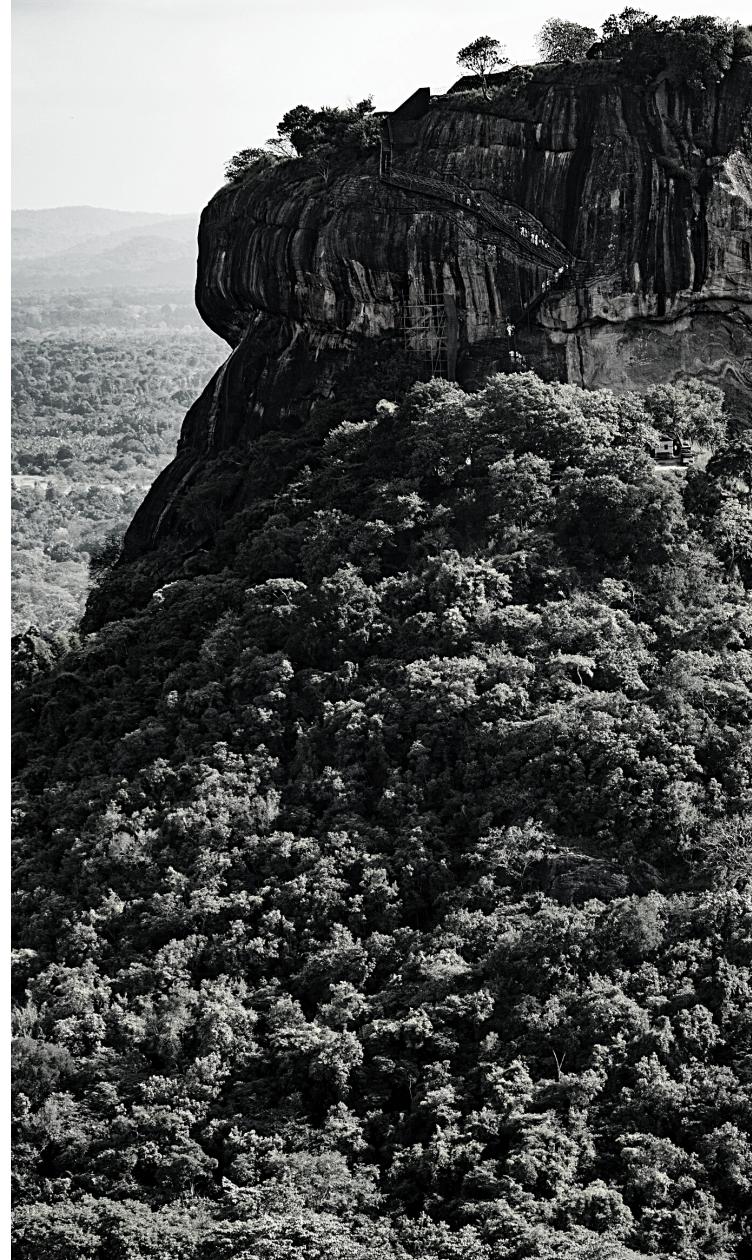
Interest

- Interest payments are subject to 14% withholding tax

Royalties

- Royalties are subject to 14% withholding tax

WHT	
Dividends	14%
Interest	14%
Royalties	14%



Termination

- Whilst there is no specific definition in either the TEWA or the IDA of what constitutes justifiable cause, case law has identified that the following types of conduct will constitute grounds for justifiable cause to dismiss on disciplinary grounds (these are not exhaustive):
 - Persistent and unauthorized absence, or late arrival, or early departure.
 - Gross negligence in the discharge of duties.
 - Insubordination.
 - Abusive/unruly behavior.
 - Dishonesty.
 - Theft.
 - Intoxication whilst at work.
- An employer's loss of confidence in an employee has also been held to be a sufficient ground for dismissal, provided that it is coupled with a specific ground of misconduct as set out above.
- Even where a loss of confidence cannot be linked to a specific ground of misconduct, it is often pleaded by employers to persuade adjudicating forums that reinstatement is not a suitable remedy.
- Notice periods, or payments in lieu of notice, for dismissal are typically stipulated in the contract of employment.

- However, where the provisions concerning notice periods, or payments in lieu of notice, are exercised by the employer during the course of an unjust dismissal, the employee can challenge that termination on the basis of unjust dismissal.
- In the case of a dismissal on disciplinary grounds, the Termination of Employment of Workmen (Special Provisions) Act No 45 of 1971 (TEWA) makes it mandatory for the employer to inform the employee, in writing, of the reasons for the dismissal before the expiry of the second working day after the dismissal has taken place.

Statutory Benefits

- These are mandatory benefits as postulated by law
- These include annual leave, public holidays, sick leave, maternity leave, overtime pay, notice period, and severance pay
- Statutory benefits also include social security benefits

Statutory Benefits

Annual Leave

Public Holidays

Maternity Leave

Paternity Leave

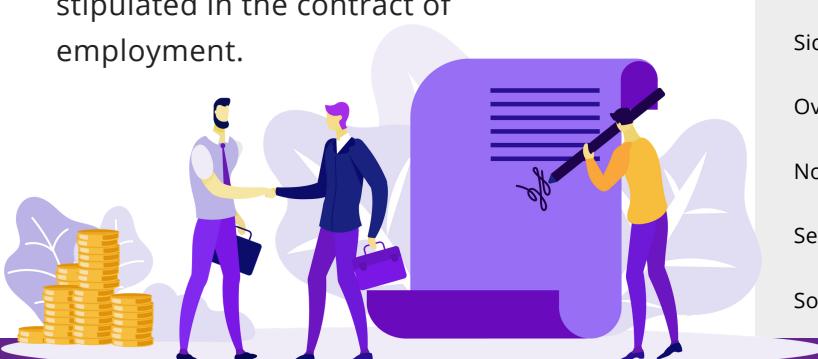
Sick Leave

Overtime Pay

Notice Period

Severance Pay

Social Security Benefits



Payments and Invoicing

- A tax year is any period of 12 consecutive months commencing on 1 April of one calendar year and ending on 31 March of the following calendar year.
- An individual is required to file a return of income in a prescribed format (with financial statements and supporting schedules, if applicable) not later than eight months after the end of each year of assessment (on or before 30 November immediately following the end of the tax year).
- Spouses are taxed separately on their individual incomes.
- Under the pay-as-you-earn (PAYE) tax system employers are required to deduct from the monthly emoluments of each employee income tax computed on the basis of statutory tables provided by the tax authority.
- In general, where employment is an individual's only source of income, the tax deducted by the employer and paid to the tax authority is the final income tax due from the employee.
- Individuals with income from other sources other than final withholding payments on which tax has been deducted are entitled to set off the annual income tax deducted by the employer from the overall income tax payable.
- Under Sri Lanka's pay-and-file system, individuals other than employees are required to pay tax in instalments on or before 15 August, 15 November, 15 February of the tax year, and 15 May immediately following its end.

Ease of Doing Business

- The ease of doing business index is an index created by Simeon Djankov, an economist at the Central and Eastern Europe sector of the World Bank Group.
- Higher rankings (a low numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights.
- According to the World Bank Sri Lanka ranked 99th in the World in 2019 in terms of ease of doing business.





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