



*cutting through complexity*

# Developing an Enabling Tax Framework to Drive the Growth of Islamic Finance in Sri Lanka

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# Sri Lanka has a fascinating web of Taxes

**Insurance  
Crop  
Levy**

**Income  
Tax**

**Customs  
Duty**

**Stamp  
Duty**

**Cess**



**NBT**

**PAL**

**ESC**

**VAT**

**Construction  
Guarantee  
Fund Levy**

**Excise  
Duty**

# Role of Interest in the Sri Lankan Tax System

## Inland Revenue Act

- Exempt
- Liable
- Tax deductible

## Value Added Act

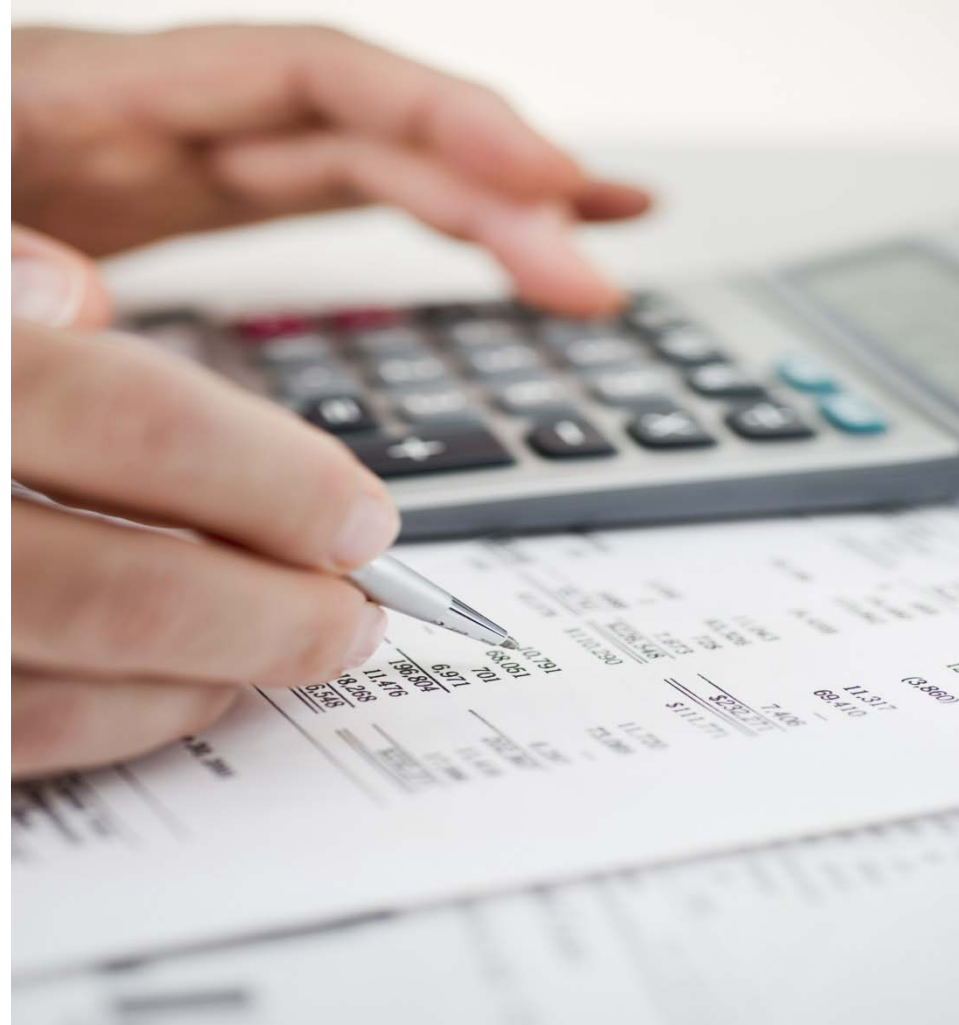
- Liable for financial VAT
- Provision of loan – VAT exempt

## Economic Service Charge

- Liable turnover

## Nation Building Tax

- Business of Banking and Finance





# Role of Government and Islamic Finance

**Ministry of Finance**

**Colombo Stock Exchange**

**Inland Revenue Department**

**Central Bank**

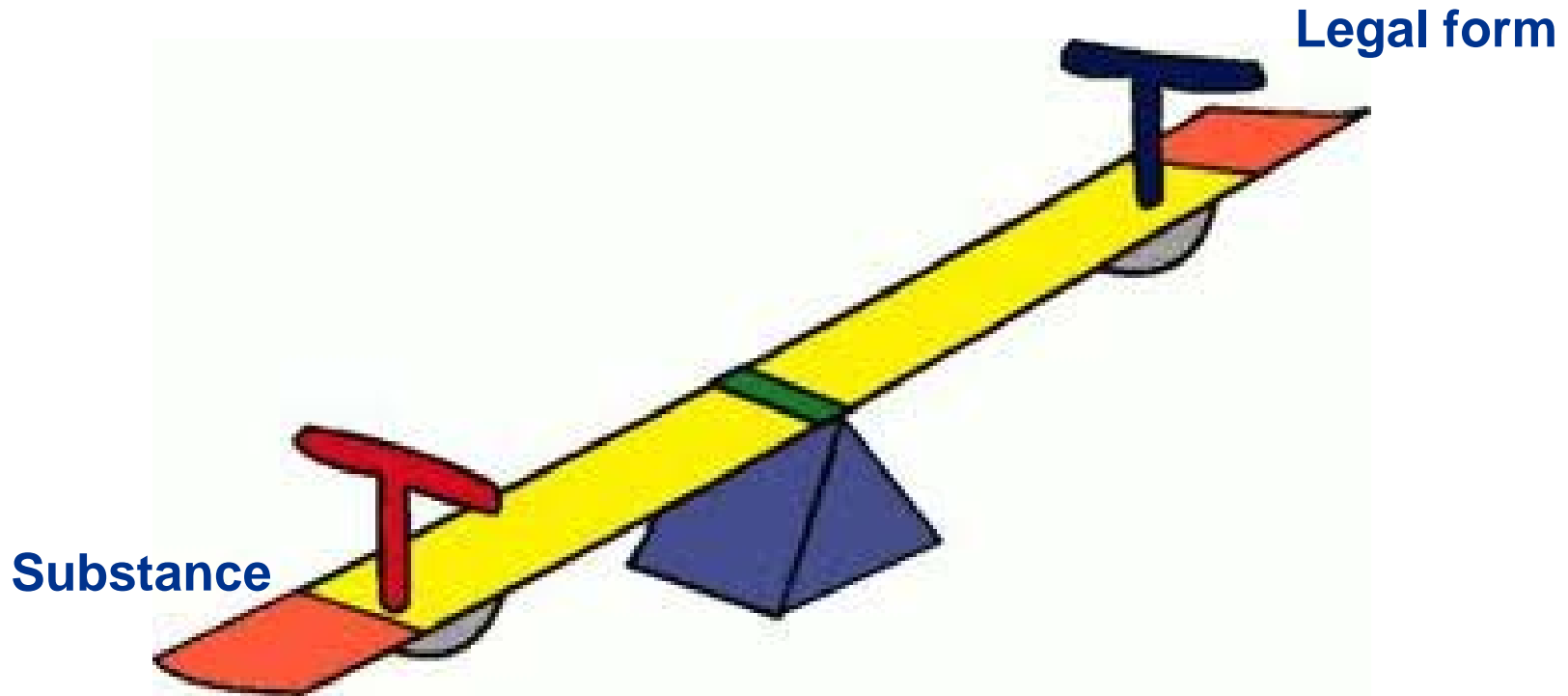
**Provisional Councils**

**Exchange Control  
Department**

# Tax – a hurdle for Islamic Finance



# Sri Lankan Tax System – based on substance or form ?



<b>Murabaha</b>	<b>-</b>	<b>Buying and Selling</b>
<b>Mudaraba</b>	<b>-</b>	<b>Partnership</b>
<b>Musharaka</b>	<b>-</b>	<b>Partnership</b>
<b>Ijara</b>	<b>-</b>	<b>Lease</b>

**In substance – financial arrangements !**



**Tax cost on additional steps to achieve the identical economic effect increases the price of IF instruments compared to conventional financial instruments.**



## Journey of eliminating Tax barriers



# Milestones in creating a level playing field in Sri Lanka



- **Deliberations at Islamic Finance Tax Focus Group**
- **Lobbying with the Ministry of Finance**

# Milestones in creating a level playing field in Sri Lanka



- **Submissions to the Presidential Taxation Commission - 2010**
- **Endorsement in the Report issued by the Presidential Taxation Commission**



# Milestones in creating a level playing field in Sri Lanka

## Budget Proposal 2011

**“Appropriate amendments where necessary will be considered in identifying the financial instrument for tax purposes under the relevant tax laws”**

**Budget Speech on 22<sup>nd</sup> November 2011 (Page 28)**





# Milestones in creating a level playing field in Sri Lanka



- **Income tax amending Bill & Committee Stage Amendments in Income Tax, VAT, ESC & NBT**

# Amendments to the Tax System

**Inland Revenue (Amending) Act No.22 of 2011- S.105A**

**Value Added (Amending) Act No. 9 of 2011 – S. 25J**

**Economic Service Charge (Amending) No. 10 of 2011- S.10A**

**Nation Building Tax (Amending) Act No 11 of 2011- S. 6A**



# Sri Lanka's experience compared with other countries





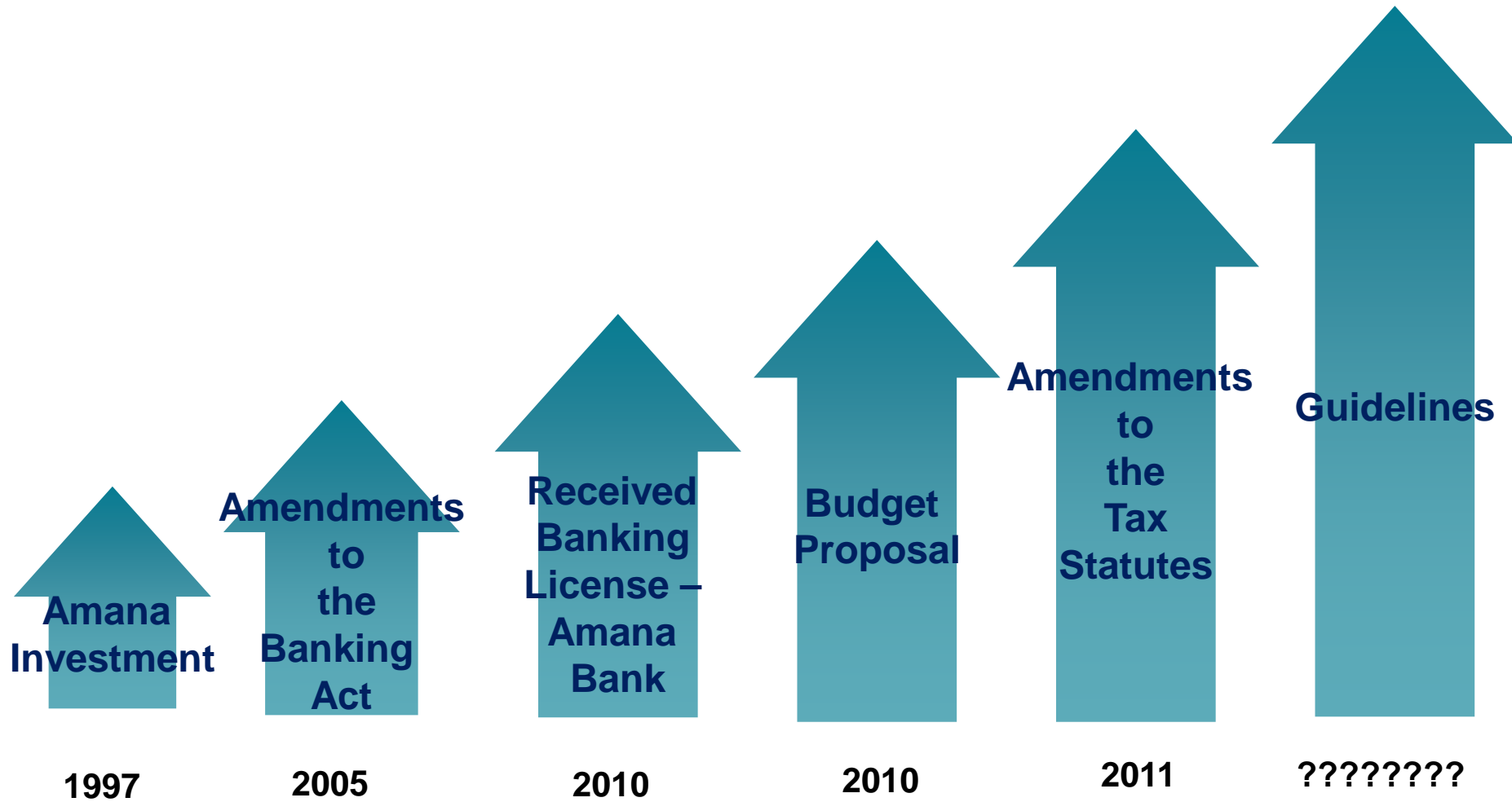
- **Dual incidence of Stamp Duty**
- **Stamp duty on immovable property – Provincial councils**



## 1<sup>st</sup> Successful Sukuk ????



# Important Milestones of Islamic Finance in Sri Lanka





# Thank You

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