



Chandrawat
& Partners

DOING BUSINESS IN SRI LANKA

A COMPREHENSIVE GUIDE

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INTRODUCTION

The island of Sri Lanka, formerly known as Ceylon and for many centuries known as the "pearl of the Indian Ocean," is situated at the southern tip of the Indian subcontinent. It is separated from India by the narrow Palk Straits and is situated at the northern end of the Indian Ocean's east-west international shipping route.

Sri Lanka presents a number of chances for business and investment being the first nation in South Asia to begin economic reform in 1977. The nation's economic fundamentals have significantly improved after three decades of internal war, and it currently experiences sustained levels of solid economic growth.

The economy is currently working to transition from a rural farming economy to an urbanized economy focused on being a manufacturing, shipping, and service hub for the South Asian region, with a major tourism sector. Tourism, in particular, has experienced rapid growth since the conclusion of the civil conflict is driving the Sri Lankan economy.



ECONOMIC OVERVIEW



It is anticipated that the Gross domestic product (“GDP”) of Sri Lanka will reach up to 71.42 USD billion by the end of 2023. In a report of economic global macro models analyst’s exceptions in the long term, the GDP of Sri Lanka is projected to trend around 72.35 USD billion in 2024 and 74.16 USD billion in 2025.

Services make up the largest economic sector in Sri Lanka, making about 58 percent of the country's overall GDP. The three most significant service sectors are: banking, insurance, and real estate (11%); wholesale and retail trade (21%); and transportation and communication (13 %). Industry is responsible for 30% of overall output. Manufacturing contributes 18% of the GDP to industry, while mining and building make up 10%. Agriculture, cattle, forestry, and fishing make up the remaining 12%.

FOREIGN DIRECT INVESTMENT POLICY

Sri Lanka, which markets itself as a Centre for foreign direct investment (“FDI”) in South Asia, welcomes enterprises with 100% foreign ownership and accords them equal standing with local investors in the majority of sectors. In the first quarter of 2023, foreign direct investment in Sri Lanka increased by 172 USD Million (“0.172 B USD”). Minimum growth was 20 million dollars, while the largest growth was 961 million dollars.



According to Dilum Amunugama, state minister for investment promotion, the Board of Investments’ (“BOI”) goal for foreign direct investments (“FDI”) is 1.5 billion US dollars for 2023, and the amount of FDI the BOI actually realized in the first quarter of 2023 was 211 million US dollars. From January to July, the BOI approved investments totaling 682 million US dollars.



KEY SECTORS



Agriculture: Being an agricultural nation, Sri Lanka still depends heavily on this industry for its economic growth. Currently, the GDP of the country's agriculture industry is roughly 10.9%. Sri Lanka is a richly resourceful tropical country with the capacity to cultivate and process a wide range of crops. Each year, about 500 graduates with degrees in agriculture, 65 with degrees in food science, and 1,000 with agriculture diplomas enter the employment market. The primary agricultural industries in Sri Lanka are floriculture, cattle, tea, rubber, coconut goods, and spices.



Pharmaceutical Sector: The pharmaceutical sector in Sri Lanka is rapidly expanding and worth approximately Rs.50 billion. The private sector accounts for over 70% of the market share, with public sector institutions accounting for the remainder.



Information Services: Sri Lanka has much potential for the Knowledge Services sector, which includes IT software creation, the Knowledge Process Outsourcing/Business Process Outsourcing business, IT and IT enabled services, and IT Training Centers, to become a significant growth sector. Sri Lanka is in an excellent position to grow into a high value added provider of IT and KPO services given the caliber of its pupils, their proficiency in English and literacy, and their closeness to India. Touring and hosting people even after suffering from natural and man-made calamities, Sri Lanka's tourism and hospitality sector is expanding quickly, making it one of the most popular travel destinations in Asia.



Porcelain and ceramics: Sri Lankan porcelain has comparatively excellent features such as great whiteness, translucency, scratch resistance, and thermal shock resistance. Sri Lanka exports a diverse range of porcelain products, including tableware, glazed wall and floor tiles, and ornamental and utility ware, which includes figurines, decorations, cooking utensils, bathroom accessories, and studio pottery

Telecommunication Sector: The country's telecommunications industry has advanced to a degree unrivalled among developing countries. As a result of relevant governmental actions, the local telecoms sector has taken satisfaction in being the first in the South Asian region to deploy some of the most cutting-edge worldwide telecommunications technologies. Sri Lanka has enabled some of the world's most advanced technologies, including GSM, 3G, 3.5G, and HSPA (High Speed Packet Access), which enables high-speed mobile broadband. Sri Lanka is also the first country to implement Next Generation Networks (NGNs) such as 4G, which will allow for the deployment of WIMAX (Worldwide Interoperability for Microwave Access) and LTE (Long Term Evolution).



ADVANTAGES OF DOING BUSINESS IN SRI LANKA

Sri Lanka is known for its top tourist destination and is emerging as one of the most crucial destinations for business trade. The advantages of doing business in Sri Lanka are:

Free trade agreements with key global markets: Only Sri Lanka has free trade agreements with both Pakistan and India. The nation has also signed free trade agreements with other Asian nations, including Singapore, Israel, Iran, and Egypt, which are known as the region's major markets. Additionally,



Strategic location—ideal for doing business: Sri Lanka is strategically situated at the intersection of the main maritime lanes that connect South Asia, the Pacific, North America, the Far East, and Europe. And Sri Lankan sea coast happens to be where 50% of container traffic and 70% of the world's energy sources pass through. With the ability to expand into additional markets and begin trade by forging out through shipping channels,



Thriving industry: Sri Lanka's thriving economy is another aspect that makes it an ideal location for business establishment. For more than four years, Sri Lanka has sustained an efficient and consistent GDP growth rate. Increased real GDP and economic growth lead to higher prices for products and services, which increases profits for business owners from sales.



Attractive and pro-business environment: Sri Lanka has the most open-market, free trade, and economic policies of any country in South Asia, making it the ideal location for business. Additionally, foreign entrepreneurs and investors in Sri Lanka are permitted to fully own all of the investments they make. Additionally, the nation has double-taxation avoidance agreements with nearly thirty-eight countries as well as bilateral investment protection agreements with about twenty-eight other nations. The nation offers great safety for foreign investments and has a comprehensive and open legal and regulatory system.

INCORPORATION OF A BUSINESS

Name of the business: Give the business a distinctive name. To make sure the company name is not already taken, the name must be confirmed on the Registrar of Companies website. Therefore, it is recommended to have two to three names available as alternatives. Once the name has been agreed upon, the Registrar of Companies keeps it reserved for a period of three months.

Select the type of business entity: There are various types of business entities in Sri Lanka, and the business owner needs to pick the best one corresponding on their preferences, their objectives, and the size of their workforce. There are several different business structures available in Sri Lanka, including sole proprietorships, overseas businesses, public limited companies, private limited companies, partnership firms, LLP firms, and partnership companies. Any of the aforementioned business formats are available to the business owner.



Particulars pertaining to the directors and shareholders: When submitting an application for the registration of the firm, the directors' names and contact information must be provided. The directors or shareholders of the company must present the required ID and address proofs to the RoC.

Filing of forms: once the company name is approved, the applicants have to furnish the following forms to the Department of registrar of Companies ("DRC")

- Company registration- form 18
- Consent and certificate of directors
- Consent and certificate of secretary/secretaries- form 19

The company's Articles of Association must be filed along with the documents stated above. The articles of association ("AoA") of the corporation may be altered or created from scratch. It can put into practice the AoA Incorporation of company: The Registrar verifies the relevant paperwork and issues the Certificate of Incorporation after receiving it from the DRC.





Public notice of incorporation: Within 30 days of the business's incorporation date, a public notice describing the incorporation of the company must be published after the aforementioned stages have been completed. The notice should briefly state the company's specific information, such as the name and registration number of the business, its registered office address, etc. The Government Gazette as well as any English, Sinhala, and Tamil daily newspaper shall publish the article. The Registrar should be given a copy of the publication.

Opening bank account: After obtaining the certificate of incorporation, a bank that has been approved must be contacted to open an account. Following that, the business must submit an application for a TIN ("Tax Identification Number") to the Inland Revenue Department by including Form 1, a copy of its incorporation certificate, and an AoA of the company.

TAXATION



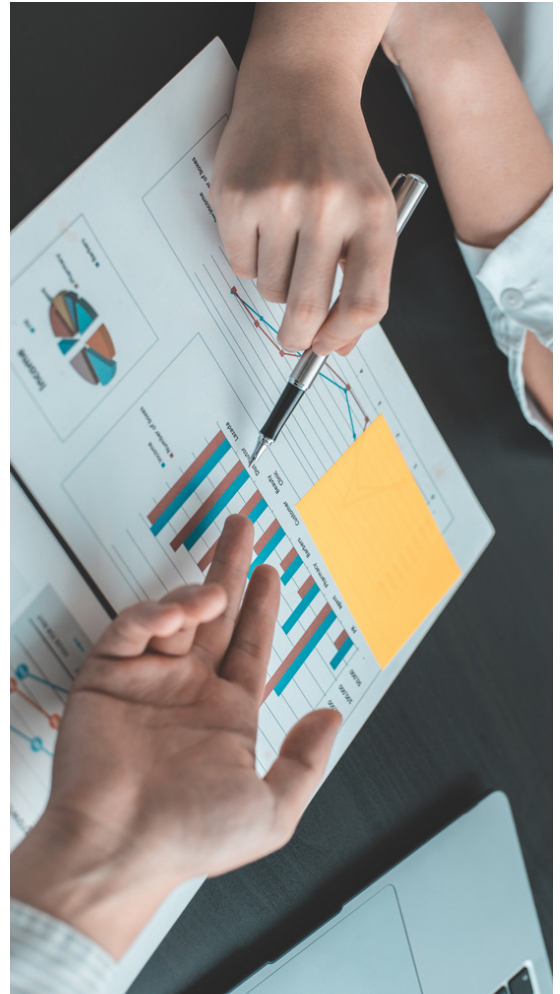
Corporate tax rate in Sri Lanka: In Sri Lanka, the Corporate Income tax rate is a tax collected from companies. Its amount is based on the net income companies obtain while exercising their business activity, normally during one business year. The benchmark we use refers to the highest rate for Corporate Income. Revenues from the Corporate Tax Rate are an important source of income for the government of Sri Lanka. In Sri Lanka, the corporate tax rate in 2023 at 24%. The highest rate was 42%, and the lowest was 15%.

Personal income tax rate in Sri Lanka: In Sri Lanka, the Personal Income Tax Rate is a tax collected from individuals and is imposed on different sources of income like labour, pensions, interest and dividends. The benchmark we use refers to the Top Marginal Tax Rate for individuals. Revenues from the Personal Income Tax Rate are an important source of income for the government of Sri Lanka.

Sales tax rate in Sri Lanka: Sales Tax Rate in Sri Lanka remained unchanged at 8 % in 2023. The maximum rate was 15 % and minimum was 8 %.

MINIMUM ELIGIBILITY CRITERIA

Limited Liability Company: As far as foreign ownership constraints are concerned, there are restrictions sector-wise. For example, in shipping and forwarding, foreign ownership was limited to 40 per cent. Foreign shareholding (“irrespective of the extent shareholding”) in a Limited Liability Company that engages in retail trade is only permitted if a minimum investment of a million has been made. There are, however, no other minimum capital requirements.





Branch office: The Foreign entity may establish a branch office in Sri Lanka without restriction, provided it invests USD200,000. branch is proposing to engage in retail trade in Sri Lanka, then a further investment of USD 2,000,000 must be rem There are no other minimum capital requirements but as in the case of the Limited Liability Company, the foreign entity establish a SIA and remit its investment in the branch through the SIA.

- Minimum/maximum number of shareholders
- Minimum-1 shareholder
- Maximum- 50



TYPES OF BUSINESS

Public Limited Companies: It takes a minimum of two shareholders and two directors to form a public limited company in Sri Lanka. A public business may list on the Colombo stock exchange and solicit public investment. Each shareholder's liability is capped at the number of shares they have purchased from the corporation. It has its own existence as an artificial person, shielding the officeholders from any legal issues that might occur during regular corporate operations.

Liability Company: In Sri Lanka, this location is the most sought-after for company registration. A minimum of one shareholder and one director are required for an LLC to operate legally in the nation. It exists separately from its officeholders, and their accountability is only for the amount of stock they have put in the company. In Sri Lanka, there is no minimum capital requirement for forming an LLC. Except the Secretary, this arrangement might be entirely owned by foreigners.





Partnerships: A partnership is a group of two or more persons who work together to conduct business. The partners' limitless responsibility may be restricted in accordance with their partnership agreement. Partnerships are listed in the city's trade registration. The agreement, which may be written or oral in nature, covers the obligations and other rules between the partners

Sole proprietorship: A sole proprietorship is the most accessible type of business structure that might exist in any market because it takes no capital and the individual has unlimited responsibility. An individual or a group of people might be the owner. There is no documentation required to start a sole proprietorship, and it is simple to run.


Overseas company: a foreign organization whose operations are registered outside the nation and which adheres to the rules established by the parent branch in the place of origin. It functions in Sri Lanka as a subsidiary of the parent firm and is required to publish its financial report in Sinhalese.

ACCOUNTING STANDARDS



Sri Lanka Accounting Standards for specific business enterprises (“SBE”): All Specific Business Enterprises (“SBEs”) in Sri Lanka must comply with these guidelines. In summary, specific business enterprises include companies in the banking, insurance, leasing, factoring, financial services, fund management, stock brokers, all companies listed on the Colombo stock exchange, and companies with more than \$500 million in revenue, more than \$100 million in share capital, more than 1,000 employees, and so on.

Accounting Standards for the Public Sector in Sri Lanka: The public sector accounting standards committee of CA Sri Lanka produced these standards. Non-commercial public authorities, local governments, government departments, ministries, and provincial councils must use these accounting standards when creating and presenting their financial statements.



Accounting Standards in Sri Lanka for Smaller Entities: Sri Lanka Accounting Standards Committee created these standards primarily for use by smaller organizations in Sri Lanka. All companies with yearly sales of less than Rs. 100 million or equity of less than Rs. 50 million must follow these guidelines while preparing and presenting their annual financial statements.

Accounting Standards for the Public Sector in Sri Lanka: The public sector accounting standards committee of CA Sri Lanka produced these standards. Non-commercial public authorities, local governments, government departments, ministries, and provincial councils must use these accounting standards when creating and presenting their financial statements.



EMPLOYMENT AND LABOR LAWS

The Shop and Office Employees Act, of 1956, the Factory Ordinance, the Minimum Wage Ordinance, the Maternity Benefits Ordinance, etc. all regulate Sri Lanka's labour laws. According to the Shop and Office Employees Act, an "office" is any location kept to conduct business for a bank, broker, insurance company, shipping company, joint-stock company, estate agent, advertising agent, commission agent, forwarding or indenting agent, or any other type of company. Any location where a retail or wholesale business is conducted, including residential hotels, locations where the sale of food or beverages, the practice of barbering or hairdressing, or any other approved trade or business is practised, is referred to as a "shop."



Nominal working hours: The normal working hours of a regular employee shall not exceed 8 hours per day. In any one week, working hours shall not exceed 45 hours. The daily hours limit does not apply to any person who holds an executive or managerial position in a public institution and who is in receipt of a consolidated salary the initial of the scale of which is not less than Rs.6, 720 per annum.



Overtime: Overtime in relation to any employment or work means employment or work in excess of the normal working hours. Overtime shall not exceed an aggregate of 12 hours in any one week.

Minimum Wage: Minimum monthly wage for all employees (irrespective of industry) is LKR 10,000, and the minimum daily wage is LKR 400.

Public holidays: An employee who works for not less than 28 hours (excluding overtime and rest breaks) in any one week must be allowed one-and-a-half days' paid holiday in that week or the week immediately after that. This weekly holiday is provided as a half-day on Saturday and a full day on Sunday.



EMPLOYMENT POLICIES

Minimum Wage: Minimum monthly wage for all employees (“irrespective of industry”) is LKR 10,000, and the minimum daily wage is LKR 400.

Working Hours: Total hours worked, exclusive of meals and rest; don’t exceed 9 hours a day, or 45 hours in any week. Working hours of a person above the minimum age of employment (“14 years”) but less than 16 years shall not exceed 12 hours a day – and not before 6 am and after 6 pm.

Payroll Cycle: The wages are paid on a daily, weekly, fortnightly, or monthly basis. However, a wage period cannot exceed a month.

Overtime Compensation: Overtime is paid at one and half times the average hourly rate of wage. The overtime hours in a week cannot exceed 12 hours.

Leaves: With Saturdays and Sundays added to public holidays, people generally have around 125 days’ holidays per year.



HOW WE CAN HELP ?

Our team of professionals can conduct comprehensive market research to help businesses understand their target audience, industry trends, and potential competitors.

Our experts can help set clear objectives, outline actionable steps, and identify opportunities for growth and expansion.

Our team can conduct risk assessments to identify potential threats and vulnerabilities within a business. They can then recommend risk mitigation strategies to safeguard against adverse events.

Our team offers advice on the optimal legal form for an enterprise, such as a corporation, partnership, limited liability company ("LLC"), or sole proprietorship. Our team describes the legal and tax implications of each option and assists in picking the best option based on objectives and circumstances.

Our team can Investigate and identify any licenses, permissions, or registrations required for the client's specific area or industry. The business assists with the application process and ensures that the organization complies with all legal criteria.



SERVING CLIENTS WORLDWIDE



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