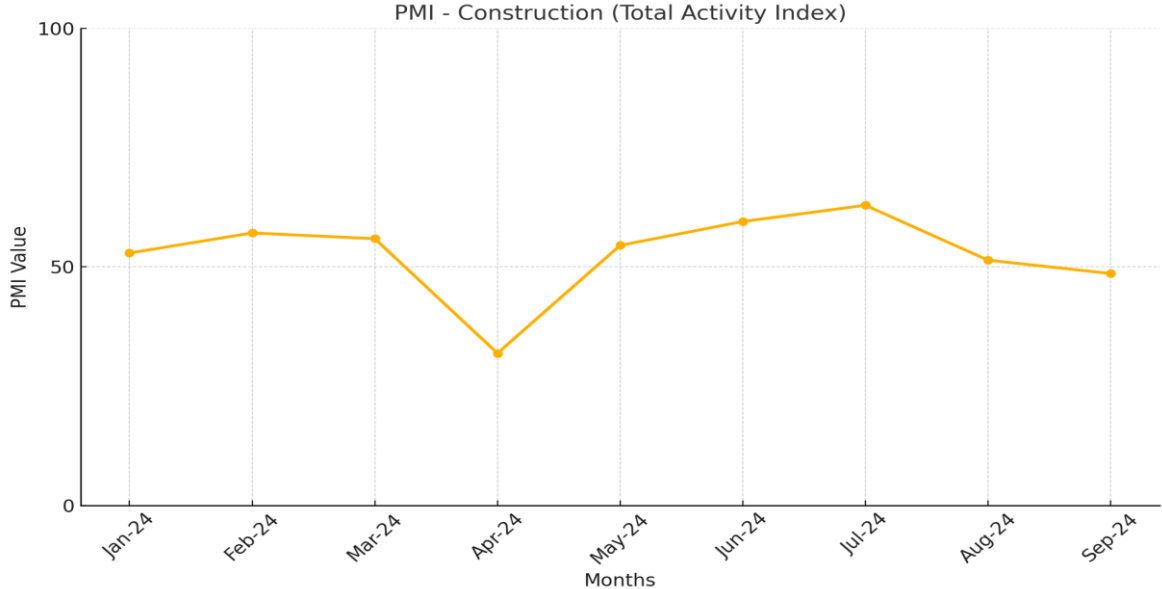


The background features abstract, overlapping geometric shapes in various shades of green, ranging from light lime to dark forest green. The shapes are primarily triangles and polygons, creating a dynamic, layered effect. The central text is positioned within a white, trapezoidal area that is slightly offset from the center.

**TAXES AFFECTING THE CONSTRUCTION
INDUSTRY AND EXPORT OF CONSTRUCTION
SERVICES**

ECONOMIC IMPACT POST-PANDEMIC

PMI indicates an expansion of construction activities in 2024.



Month	PMI (Total Activity Index)
Jan-24	52.9
Feb-24	57.1
Mar-24	55.9
Apr-24	31.9
May-24	54.5
Jun-24	59.5
Jul-24	62.9
Aug-24	51.4
Sep-24	48.6

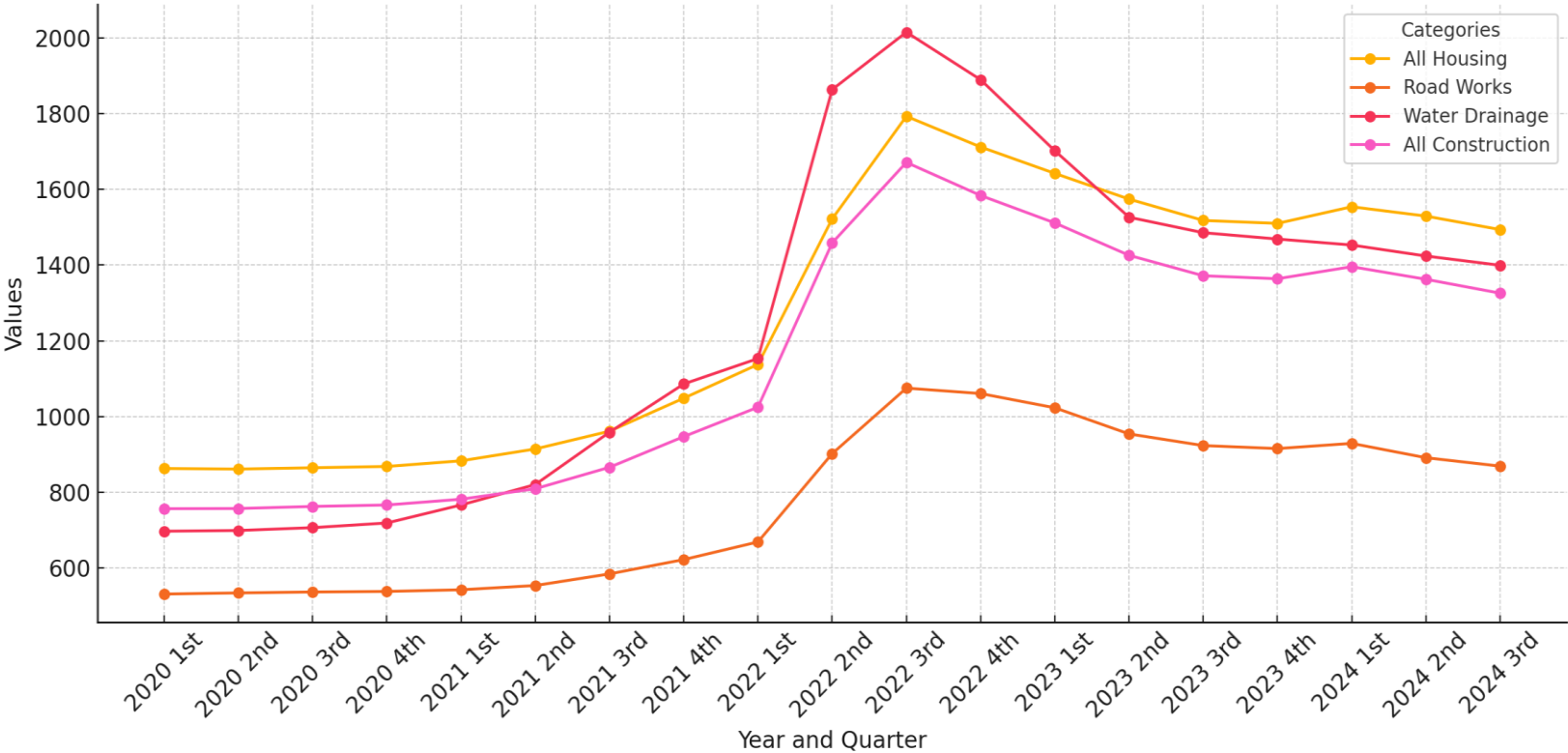
(Source : Central Bank of Sri Lanka)

MANAGING ESCALATING PROJECT COST (Cont.)

Rising Project Cost -Pandemic/Crisis /USD Appreciation

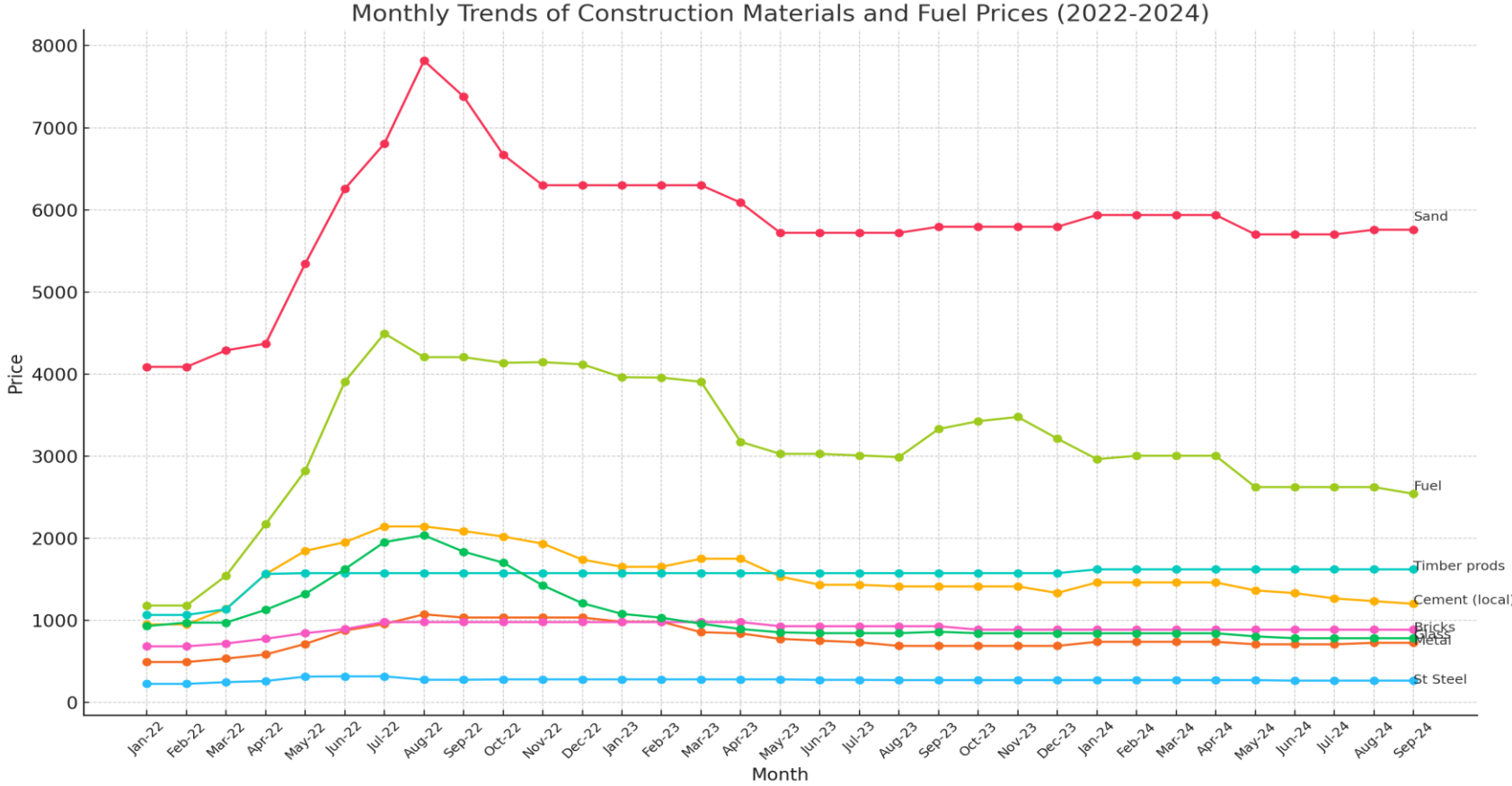
(Source: Bulletin of Construction Statistics September 2024)

Trends in Housing and Construction (2020-2024)



MANAGING ESCALATING PROJECT COST (Cont.)

Rising Project Cost (Source: Bulletin of Construction Statistics September 2024)



MANAGING ESCALATING PROJECT COST (Cont.)

Impact of High Tax rates

VAT 18%, IT 30%, stamp duty, import duties, SSCL, Capital gains

Informal Market

Higher taxes push businesses towards unregulated or black-market transactions to avoid VAT.

Cash Flow Issues

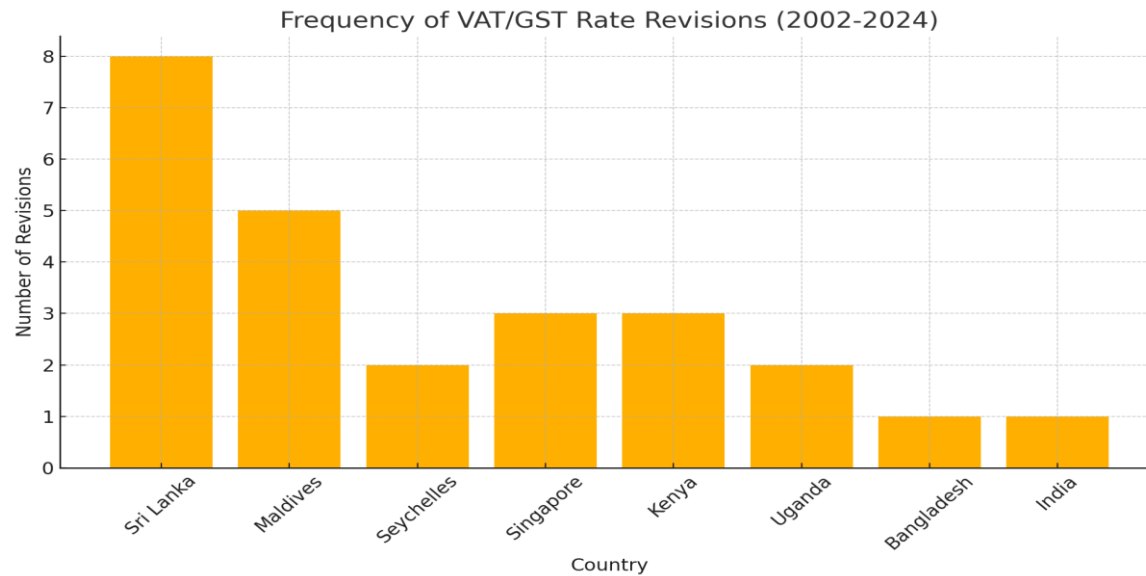
Paying upfront for materials and services while recovering costs later, combined with high VAT and bank interest rates, creates significant liquidity pressure.

MANAGING ESCALATING PROJECT COST (Cont.)

Frequent changes in tax policies

The lack of a stable economic policy causes frequent tax changes, disrupting business planning.

Frequent changes create confusion, disrupt operations, and reduce trust, making it harder for businesses to succeed.



MANAGING ESCALATING PROJECT COST (Cont.)

Less competitiveness

The cost of locally produced goods is much higher than imported goods from countries with lower VAT rates.

This put us at a disadvantage in both domestic and international markets.

Recommendation :

Stabilise tax policies to support long-term business planning.

Country	Standard VAT Rate
Sri Lanka	18%
Maldives	8%
Seychelles	15%
Singapore	9%
Kenya	16%
Uganda	18%
Bangladesh	15%
India	5%-28%

VAT REFUND ISSUES

Absence of an efficient VAT refund system

Timely clearance of amounts, even without the release of funds, will at least support the administrative operations.

Uncertainty over finalising refund amounts.

The abolition of SVAT is likely to worsen the situation further.

Recommendation - *Improve VAT refund systems for better efficiency and transparency.*

VAT REGISTRATION IDENTIFICATION

The lack of proper information results in the VAT portion being an additional cost to the purchaser.

Regular updates to the list are essential for businesses to ensure compliance and avoid operational disruptions.

Recommendation- Regularly update IRD registered supplier lists to ensure business compliance.

DOUBLE TAX AGREEMENTS (DTA's)

Local contractors have significant potential to secure projects in African countries.

The absence of DTA limits tax benefits, increasing project costs.

Establishing DTA's can lower taxes and improve competitiveness for international contracts.

Recommendation-Negotiate and establish Double Tax Agreements to enhance global opportunities for local contractors.

COMPLEX CUSTOM TAXES

Complex tax structure at customs.

Businesses incur higher costs for specialised personnel

Slower processing disrupts supply chains

Miscalculations lead to penalties or fines.

Complexity creates opportunities for bribery.

Recommendation: Simplify tax structures to align with international standards. Implement digital systems for automation and transparency.

OTHER ISSUES ON EXPORT OF CONSTRUCTION SERVICES

Difficulty in sending machinery and equipment and bring back at the completion.

Unnecessary tax burden

Recommendation

A proper system for approval is needed to bring them back at completion.

USD Salaries to employees engaged in overseas projects based in Sri Lanka.

Recommendation

Granting permission is essential to encourage and support that service if earned in foreign exchange considering their contribution to export of services

