Doing business in Sri Lanka

Choice of Vehicle

Below are the popular corporate registration vehicles for foreign companies to invest in Sri Lanka:

**Offshore Company:** An offshore company shall have the power to carry on any business outside Sri Lanka; but shall not be entitled to carry on any business within Sri Lanka.

**Overseas Company:** Any company or body corporate incorporated outside Sri Lanka, whose business has been granted permission for the purposes of the Exchange Control Act, subject to the exclusions, limitations and conditions published in the Government Gazette.

Compliance and Reporting

1. **Corporate Secretarial**

   1.1 Offshore Company

   Any company or body corporate incorporated in Sri Lanka or under the laws of any foreign country may make an application to the Registrar General of Companies be registered as an Off-shore company and to be referred to as such. Registration of the company will be subject to the Registrar being satisfied that:

   - Winding up or liquidation of such company has not commenced, a receiver of the property has not been appointed, there is no scheme or order in force suspending the rights of creditors and in the case of a company incorporated abroad, there is no legal impediment in the country of incorporation to the company engaging in the business of an off-shore company.

   - An offshore company cannot earn an income within Sri Lanka. But may do outside Sri Lanka.

   The issue of the certificate of registration will not render defective any legal or other proceedings instituted or to be instituted by or against the company.

   1.2 Overseas Company

   A branch is not recognized as a separate legal entity from the foreign company (Head Office) but merely an extension of the Head Office. Its business activities are limited to the activities of Head Office. The Head Office bears the ultimate responsibility for any liabilities arising from the business operation of the Sri Lanka branch office.

   **Registration process:** The registration process may take approximately three to four days provided the Head Office furnish all the various supporting documents and required information to register the Branch. The name of the Sri Lanka branch must correspond to the name of the Head Office.

   Branch Office cannot do the following as per schedule I, which is details into; Money lending, Pawn broking, Retail trade with a capital of less than two million US Dollars, Coastal fishing, Growing and primary processing of tea, rubber, coconut and rice, Mining and primary processing of non-renewable national resources, Freight forwarding, Shipping agency business, Mechanized mining of gems, Lotteries, Security Services including security management, assessment and consulting to individuals or private organizations.

This guide provides an overview of registration, compliance and reporting requirements for corporates coming inbound into Sri Lanka for the first time. The information provided is general in nature and should not be relied upon as professional advice.
Further an overseas company should:

- Invest a minimum of United State Dollars (USD) 200,000 or equivalent amount in other designated foreign currencies, out of remittances received from abroad and channelled through a special rupee account designated as “Inward Investment Account” (IIA) opened in a commercial bank in Sri Lanka in accordance with directions given by the Controller of Exchange in that regard to commercial Banks.
- Provide evidence of remittance of minimum total of USD 200,000 or equivalent amount in other designated foreign currencies to the Registrar of Companies, within 30 days registration.

Sole-Proprietorship
An association of one person carrying on business, with a view to profit.

Partnership
An association of two or more persons carrying on business in common with a view to profit.

2. Accounting and Reporting

2.1 Accounting Records
Every company is required to have a record of all its business transactions, minutes of all shareholders or members’ meetings, and a share register. These should be kept at the principal place of business and must be available for inspection by a director, trustee, shareholder or member during regular business hours. Furthermore, companies should maintain general ledger, general journal, purchase journal, sales journal, and cash receipts/disbursements journal.

2.2 Financial Statements
The financial statements are prepared in accordance with the International Financial Reporting Standards (IFRSs) or other basis of accounting which may be prescribed by the regulations. The accounting period of the company is contained in its by-laws.

3. Tax

3.1 Income Tax
Resident individuals are taxed on worldwide income. Nonresidents are taxed on income derived from Sri Lanka only. Individuals are considered resident for tax purposes if they are present in Sri Lanka for more than 183 days in a tax year. A resident guest and a dual citizen are subject to tax only on income derived in Sri Lanka.

Companies resident in Sri Lanka are subject to income tax on their worldwide income. Nonresident companies are subject to tax on their profits and income derived from Sri Lankan sources. A company is considered to be a resident company if its registered or principal office is in Sri Lanka or if the control and management of its business are exercised in Sri Lanka.

3.2 Indirect Tax
Indirect taxes are chargeable in Sri Lanka primarily on goods & services rendered in Sri Lanka through business carried out in Sri Lanka.

3.3 Customs or Excise Duties
Goods imported into Sri Lanka are generally subject to customs duty. The applicable duty rate will depend on the appropriate classification of goods under the Tariff and Customs Code.

Funding Operations
The commercial banks in Sri Lanka are authorized to grant loans and advances to companies incorporated in Sri Lanka with a majority of nonresident shareholders.

Foreign investment consideration
Fiscal incentives such as income tax holiday and preferential tax rates on gross income earned, as well as non-fiscal incentives may be availed for business activities.

Entity Dissolution/Liquidation
We can assist with the application for dormant status or liquidation of an entity in accordance with the statutory process prescribed by the Companies Act No 07 of 2007, Sri Lanka. We can also assist in an initial balance sheet review to determine appropriate dissolution method.

Registering a Company
Registrar of Companies (ROC) is the regulatory body that overlooks the registrations of companies. A Certificate of Incorporation with a registration number will be issued after successful application.