

Construction and projects in Sri Lanka: overview

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A Q&A guide to construction and projects in Sri Lanka.

The Q&A is part of the global guide to construction and projects. Areas covered include trends and significant deals, the main parties, procurement arrangements, transaction structures and corporate vehicles, financing projects, security and contractual protections required by funders, standard forms of contract, risk allocation, exclusion of liability, caps and force majeure. Also covered are material delays and variations, appointing and paying contractors, subcontractors, licences and consents, project insurance, labour laws, health and safety, environmental issues, corrupt business practices and bribery, bankruptcy and insolvency, public private partnerships (PPPs), dispute resolution, tax, the main construction organisations, and proposals for reform.

To compare answers across multiple jurisdictions, visit the construction and projects [Country Q&A tool](#). The Q&A is part of the global guide to transfer pricing. For a full list of jurisdictional Q&As visit www.practicallaw.com/construction-guide.

Overview of the construction and projects sector

1. What are the main trends in the local construction and projects market? What are the most significant deals?

Main trends

There has been an increase in residential, commercial and mixed development projects undertaken by the private sector. In addition, a significant number of major infrastructure developments have been undertaken, mainly through Public-Private Partnership (PPP) arrangements.

Major projects

The larger current projects include the:

- Colombo Port City project.
- Hambantota Port project and other port-related developments.

- Western Region Light Rail Transit (LRT) PPP project in Colombo.
- Kerawalapitiya Combined Cycle power plant.
- ITC Colombo One Hotel and Residencies.
- Grand Hyatt Colombo.
- Altair Sri Lanka luxury apartments and condominiums.

Procurement arrangements

2. Which are the most common procurement arrangements if the main parties are local? Are these arrangements different if some or all of the main parties are international contractors or consultants?

Private sector construction works are commonly procured through build-only contracts, design and build contracts, turnkey contracts and other similar standard form construction contracts.

The procurement arrangements of the public sector must be carried out in accordance with the 2006 Procurement Guidelines on Goods and Works (2006 Procurement Guidelines), which permits the procuring entity to enter into works contracts for construction, repair, decoration, refurbishment, restoration, maintenance and so on of buildings, infrastructure, civil works structures and other associated activities.

Infrastructure projects based on PPP models, such as Build Own Operate (BOO), Build Operate Transfer (BOT), Build Own Operate Transfer (BOOT), must be undertaken in accordance with the Procurement Guidelines for Private Sector Infrastructure Projects 1998 (1998 Procurement Guidelines). The main contractual document in such PPP projects will be the Concession Agreement.

Transaction structures

3. What transaction structures and corporate vehicles are most commonly used in both local and international projects?

Local projects

Private sector construction projects adopt transaction structures in the form of joint ventures, consortia or commercial partnerships and the most common corporate vehicles are private limited liability companies.

In the authors' experience, all large-scale works and projects are undertaken by project companies in the form of private limited liability companies. Projects awarded to joint ventures and consortia catering to the public sector are required to establish a presence in Sri Lanka.

International projects

International construction projects typically maintain a local presence by means of a limited liability company.

Finance

4. How are projects financed? How do arrangements differ for major international projects?

Private sector projects are most often financed by debt and equity, issue of debentures, development banks and export credit agency loans.

Public sector projects are frequently financed by way of private funding and international donor funding from the IMF, ADB and other similar granting organisations.

Security and contractual protections

5. What forms of security and contractual protections do funders typically require to protect their investments?

Security

Security arrangements of the private sector usually take the form of a mortgage or lien over project assets, including the project site and will be subject to the Foreign Exchange Act No. 12 of 2017 (FEA) and regulations issued under it and the Land (Restrictions on Alienation) Act No. 38 of 2014 as amended (LRA Act) where the security is being provided to a foreign lender.

In public sector projects, it is common to obtain long-term debt funding from foreign lenders, where security is provided over the assets of the project company and project payment streams, subject to applicable restrictions under the FEA and the LRA Act.

Contractual

Common contractual protections used by both public and private sector projects are:

- Performance bonds and guarantees provided under the contracts.
- Collateral warranties to mitigate defaults along with other representations and warranties.

In public sector projects, the lenders also generally require the rights to step in and take over a project on default by the project company. This requires the project contract to be transferred to the lender (or his nominee) as set out in the project contract and/or a Direct Contract entered into by the public authority, the project company and the lender. Project contract may also require the Government of Sri Lanka (GoSL) not to unreasonably withhold consent to assign a project contract to a third party where the proposed assignee has the requisite expertise, experience and financial stability.

Standard forms of contracts

6. What standard forms of contracts are used for both local and international projects? Which organisations publish them?

Local projects

The Construction Industry Development Act No. 33 of 2014 (CID Act) provides that the standard documents of the Construction Industry Development Authority (CIDA), generally known as ICTAD contracts (under CIDA's predecessor's name, the Institute of Corporation Training and Development (ICTAD)), must be used to carry out works defined as Identified Construction Works under the CID Act.

Identified Constructions Works are:

- Buildings, structures, or land which consists of facilities and amenities for public use exceeding LKR10 million in value or any higher value prescribed by the Minister in charge of construction, from time to time.
- All buildings, structures or land which need approval of environmental, geological and cultural heritage regulatory bodies (excluding any private residential building constructed for the personal use of any private owner).

ICTAD contracts are largely based on the International Federation of Consulting Engineers (FIDIC) rules.

International projects

International projects in the public sector which are fully or partially financed by funding agencies such as the World Bank, Japan International Cooperation Agency (JICA), Asian Development Bank (ADB) and/or the Swedish International Development Cooperation Agency (SIDA) must comply with the requirements imposed by the respective funding agency and often **use** FIDIC forms.

Contractual issues

Contractors' risks

7. What risks are typically allocated to the contractor? How are these risks offset or managed?

The most notable risks typically allocated to the contractor are:

- Material delays and additional costs arising from these.
- Shortage of manpower.
- Trade union strikes.
- Risks posed by equipment, materials and/or temporary works brought on to or carried on at the project site.
- Ensuring all work undertaken by the contractor is conducted in compliance with the legal requirements of the jurisdiction.
- Unforeseen works to be undertaken.

There are no key variations between local and international projects.

Risks can be offset or managed contractually by adopting suitable pricing strategies.

Risks arising under public sector construction contracts are addressed under the relevant project contract and the project company is usually required under the project contract to obtain project-related insurances.

Excluding liability

8. How can liability be excluded or restricted under local law?

Under Sri Lankan law, contractual liability can be excluded to the extent set out in the Unfair Contract Terms Act No. 27 of 1997. Parties cannot exclude or limit liability for gross negligence or for liability arising out of wilful misconduct amounting to a breach of contract or breach of duty, as these are a cause of action in tort/delict.

Caps on liability

9. Do the parties usually agree a cap on liability? If yes, how is this usually fixed? What liabilities, if any, are typically not capped?

Typically, caps on liabilities arising out of technical or manufacturing faults in machinery and raw materials used are stipulated in the contracts and are capped up to the value of the contract and/or up to an agreed amount. In relation to the public sector, the 2006 Procurement Guidelines recommends that the sum agreed as damages under a contract must be reasonable and not be of a level which could be interpreted as punitive by a court of law.

Force majeure

10. Are force majeure exclusions available and enforceable?

Force majeure exclusions are available and enforceable, and often used in construction contracts. For example, a contractor who is restricted/prevented from achieving project milestones due to exceptional events beyond its control, which delay supply of materials, will be assisted under a force majeure exclusion. The terms of the contract will typically address payment obligations upon the occurrence of a force majeure event.

Delays due to unforeseen events, such as pandemics, are likely to be covered by force majeure clauses in construction contracts.

11. What contractual provisions are typically negotiated to cover material delays to the project?

The common provisions negotiated to cover material delays are as follows:

- Completion of work stipulating completion dates.
- Provision of prior notice to the relevant party(ies) of any foreseeable delays.
- Adjustment of completion dates.
- Suspension of particular work(s) by the contractor and/or the project company.
- Catch-all clauses to ensure protection for the project company, its agents, and other persons to whom the project company is contractually responsible.
- Extension of time provisions for completion on evaluation of a claim for delay suffered due to an event for which the contractor is not responsible. This is subject, however, to the contractor's timely notification and prior approval of the procuring entity.
- Liquidated damages clauses for each day of delay beyond the agreed timelines for each phase of the project. Liquidated damages are enforceable provided the damages are genuine pre-estimates of the loss or damage that the procuring entity will suffer if the project is not completed by the agreed timelines.

Substantial delays can also be an event triggering termination where such delays are not caused by force majeure events.

12. What contractual provisions are typically negotiated to cover variations to the works?

Contracts typically provide for the employer's right to vary the scope, quality or quantity of works or services at any time during the period of the contract and provide the basis for these variations which must be within the approved scope of work and not amount to extra work.

Contracts provide for extensions of time on the occurrence of any variation. Contractors may also be permitted to give notice to the employer (with supporting particulars) that:

- They cannot readily obtain the supplies and/or labour for the required variations.
- The variation will reduce the safety and suitability of the works covered by the contract.
- The variation will have an adverse effect on the provision of services under the contract.

On receipt of the contractor's notice, the employer can cancel, confirm or vary the instructions given. Contracts can also provide for the contractor to vary terms in the event of a change in law. Financial conditions of the agreement will be adjusted where a variation is made.

Other negotiated provisions

13. What other contractual provisions are usually heavily negotiated by the parties?

The most heavily negotiated contractual provisions are timelines, costs, termination, default, payment terms and dispute resolution methods. However, in public sector projects, the 2006 Procurement Guidelines provide that all disputes arising out of the project contract must be governed by the Arbitration Act No. 11 of 1995 as amended (Arbitration Act) and that for foreign funded projects, dispute resolution provisions recommended by the foreign funding agency must be complied with.

Architects, engineers and construction professionals

14. How are construction professionals usually selected? Following selection, how are they formally appointed?

For both public and private sector projects, the selection of construction professionals (contractors, architects and consultants) is governed by the CID Act. Any person engaged in Identified Constructions Works under the CID Act (see [Question 6](#)) must be registered with the CIDA. Construction professionals (such as, architects) generally follow the guidelines and form of contract prescribed by their respective professional body.

Foreign contractors and consultants engaged in Identified Construction Works under any GoSL project are not required to be registered with CIDA.

15. What provisions of construction professionals' appointments are most heavily negotiated? Are liabilities commonly limited or capped in construction professionals' appointments?

Negotiated provisions

The most commonly negotiated terms are:

- **Fees payable to construction professionals.** The various professional bodies issue regulatory guidelines about fees payable to professionals. However, in practice and depending on the scale and nature of the project these are not always followed.
- **Quality of work.** Architects, engineers, civil contractors, sub-contractors, mechanical engineers and so on are governed by the guidelines and rules of the relevant professional body (for example, the Sri Lanka Institute of Architects provides guidelines on architects' qualifications and the code of conduct to be adhered to when acting in a professional capacity). Therefore, these professionals must be appointed in accordance with these guidelines.
- **Timelines for completion of construction projects.** It is crucial to negotiate the approximate timelines for completion of construction. In Sri Lanka, these are generally the most heavily negotiated terms as construction projects are constantly prone to delays. Breach of time restraints must be additionally included in dispute resolution clauses of the contracts.
- **IP rights of the parties.**
- **Confidentiality of the construction professionals.**
- **Caps on liabilities of construction professionals.**

Liability

Professionals are liable under the common law principle of delict/tort and, therefore, the responsibility and duty of care vests with the professional and cannot be contracted out of (see [Question 14](#)).

Payment for construction work

16. What are the usual methods of payment for construction work? Are there ways for the contractor and consultants to secure payment or mitigate risks of non-payment under local law?

Methods of payment

There is no statutory procedure for payment to contractors. Payments can be calculated on a measure and pay basis or as a lump sum as contracted between the parties.

Securing payment

Contractors can resort to contractual protections, performance bonds and guarantees. Contractors are typically not allowed to take contractor's lien over the project assets or project site and are responsible for ensuring that all equipment and materials used are free from any lien, conditional sales contract and so on.

Subcontractors

17. How do the parties typically manage their relationships with subcontractors?

Typically, the main contractor manages the sub-contractors engaged by it. An employer normally requires a main contractor to warrant that they negotiate with the sub-contractors in good faith to obtain commercially reasonable remedies including warranties, performance guarantees and liquidated damages from the sub-contractors.

The employer can also require the main contractor to assign warranties, performance guarantees and liquidated damages provisions contained in the sub-contracts to the employer to the extent necessary and is permitted to assign the same under sub-contracts in given circumstances.

Licensing

18. What licences and other consents must contractors and construction professionals have to carry out local construction work? Are there any specific licensing requirements for international contractors and construction professionals?

All domestic contractors and construction professionals and foreign consultants engaged in Identified Construction Works must have the appropriate and valid CIDA registration except for foreign contractors and consultants engaged in Identified Construction Works of GoSL projects (see [Question 14](#)). Other requirements are set out by the relevant institutions relating to the construction professional(s).

19. What licences and other consents must a project obtain?

Before

Licences that must be obtained before construction commences include:

- Preliminary planning clearances for development activities and development permits for multipurpose development activities, change of use, development of low-lying lands and paddy lands, and other licences, approvals and clearances from the Urban Development Authority.
- Environmental Impact Assessment/Environmental Protection Licences from the Central Environmental Authority.
- Required approvals from the Road Development Authority.
- Approvals from the Sri Lanka Land Reclamation and Development Corporation.
- Fire/drainage/water/sewage and storm water connection clearances.
- Relevant local authority approvals, including the approval of the Building Plan, which may be required depending on the nature, scale and type of construction work undertaken.

Consents, approval and permits from the following authorities may be required depending on the nature and location of the project:

- Coast Conservation Department.
- Department of Forest Conservation.
- Department of Wildlife Conservation of Sri Lanka.
- Department of Archaeology.
- Sri Lanka Tourism Development Authority.

During

No licences are required specifically during the project unless any consent, permit or approval obtained before the commencement of the project is issued subject to particular conditions that require an inspection during the construction.

On completion

A certificate of conformity from the relevant local authority and any additional licences required for specific requirements of the project may be required at completion.

Projects insurance

20. What types of insurance must be maintained by law? Are other non-compulsory types of insurance maintained under contract?

Compulsory insurance

It is mandatory for the contractor to obtain workmen's compensation policies under the Workmen's Compensation Act No. 31 of 1957 as amended. In addition, all insurance policies required are stipulated in the Standard Bidding Documents published by CIDA. The compulsory and non-compulsory insurance policies vary depending on the type of construction undertaken.

The compulsory insurance policies for public sector contracts are exhaustively set out in the project document and usually include insurance of project assets, builder's all risk insurance, workmen's compensation insurance and third-party liability insurance and insurance in relation to environmental liabilities.

Non-compulsory insurance

The following types of insurance may be obtained by an employer:

- Commercial general liability.
- Professional liability.
- Vehicle insurance.

Where the employer is also the contractor, Contractors All Risk (CAR) policy is commonly resorted to.

Additional insurance policies that may be considered are in the Standard Bidding Documents published by CIDA.

Employment laws

21. What are the main requirements for hiring local and foreign workers?

Local workers

There are no authorisations required and qualifications for an employee will vary depending on their job role and specifications.

Foreign workers

Foreign workers employed in a project will require work permits.

22. Which employment laws are relevant to projects?

The employment laws relevant to projects are the:

- Shop and Office Act No. 15 of 1954 as amended: provides for regulation of employment, hours of work, maternity benefits, health and comfort of employees, remuneration and other related matters.
- Wages Boards Ordinance No. 27 of 1941 as amended: regulates wages and other emoluments of employed persons through wages boards for identified industries.
- Employees' Provident Fund Act No. 15 of 1958 as amended: provides for superannuation benefits of employees contributed both by the employees and employer for certain categories of employees.
- Employees' Trust Fund Act No. of 1980 as amended: provides for superannuation benefits of employees' to be paid by an employer.
- National Minimum Wage Act No. 3 of 2016: provides for payment of a national minimum wage by employers to workers.
- Factories Ordinance No. 45 of 1942 as amended: contains provisions (among others) relating to safety and welfare of workers in places of employment (including construction sites).
- Employees' Holidays Act No. 6 of 1959 as amended: provides for the holiday entitlement for certain classes of employees.

23. Must an employer pay statutory redundancy or other payments at the end of a project? Are all employees eligible?

There is no requirement for an employer to pay statutory redundancy or other payments at the end of a project.

Health and safety

24. Which health and safety laws apply to projects?

The Factories Ordinance No. 45 of 1942 as amended provides among others that:

- All machinery, equipment and electrical installations must be safe;
- Machinery must have protective covers.
- Gas, smoke, fumes, dust, vapour must be let out of the premises.
- Machine sounds and shocks must be reduced.
- First-aid kits and firefighting equipment must be readily available.
- Good drinking water should must –be available.
- Workers are required to be provided with safety head, body, feet, nose and eye protections as necessary.

Any employee who sustains injuries due to a breach of the obligations set out above will be entitled to compensation pursuant to the Workmen's Compensation Ordinance No. 19 of 1934 as amended.

Environmental issues

25. Which local laws regulate projects' effects on the environment?

Air and water

The relevant laws relating to the protection of air and water quality are the National Environmental Act No. 47 of 1980 as amended (NEA) and the National Environmental (Procedure for Approval of Projects) Regulations No. 1 of 1993 (NEA Regulations 1993).

Development activities often constitute "Prescribed Projects" based on the location and magnitude of the project, as set out under Extraordinary Gazette Nos. 772/22 dated 24.06.1993, No 859/14 dated 16.02.1995 and No. 1104/22 dated 27.10.1999 and must be approved in accordance with the NEA Regulations 1993.

The approval process requires the project proponent to carry out an Initial Environmental Examination (where the environmental impact is not significant) or an Environmental Impact Assessment (EIA) (where the environmental impact is likely to be significant and a detailed study is required).

The relevant project approving agency (that is, the relevant Ministry/public sector authority, in whose purview the project lies) will grant the environmental clearance with the concurrence of the Central Environmental Authority (CEA). Such environmental clearances generally address protective measures to be taken by the licensee to prevent/minimise air and water pollution.

Waste

The relevant laws relating to waste management are the NEA and the National Environmental (Protection and Quality) Regulations No. 1 of 2008 set out in the Extraordinary Gazette Notification No. 1534/18 dated 01.02.2008.

If the project generates "Scheduled Waste" (defined to include asbestos waste), the generation, collection, transport, storage and disposal of the Scheduled Waste must be carried out under the authority of a Scheduled Waste Management License obtained from the CEA

Environmental impact assessments (EIAs)

EIAs must be carried out if the project constitutes a "Prescribed Project" in terms of the NEA and NEA Regulations 1993, based on its location and magnitude, *see above, Air and water*.

Prescribed Projects include the following:

Housing and building integrated multi development activities consisting of housing, industry, commercial infrastructure covering a land area exceeding ten hectares.

Construction of all commercial buildings as defined by the Urban Development Authority Law No. 41 of 1978 and the construction of dwelling housing units, irrespective of the magnitude and location.

Construction of ports, railways, national and provincial highways and so on.

Requisite environmental clearance will be granted by the project approving agency (*see above, Waste*) with the concurrence of the CEA.

Sustainable development

The United Nations Sustainable Development Goals are ratified by Sri Lanka. However, there are no specific local laws relating to the above.

26. Do new buildings need to meet carbon emissions or climate change targets?

Sri Lanka has ratified the Kyoto Protocol and Paris Agreement.

There are no specific laws regulating carbon emissions or climate change targets. Matters relating to climate change the Ministry of Environment through the Climate Change Secretariat.

Prohibiting corrupt practices

27. Are there any rules prohibiting corrupt business practices and bribery (particularly any rules targeting the projects sector)? What are the applicable civil or criminal penalties?

Rules

The 2006 Procurement Guidelines stipulate that officials involved in procurement must not abuse their powers to derive a material benefit to themselves, their close family or their business.

The Bribery Act No. 8 of 1973 as amended (Bribery Act) prohibits bribery and corruption of public officers, who include members of parliament and every employee of the GoSL. Offering bribes to public officers as rewards for procuring or using influence in relation to contracts is specifically prohibited.

Penalties

A person who offers bribes to public officers as rewards for procuring or using influence in relation to contracts with the GoSL can be held liable for a term of rigorous imprisonment of up to seven years and a fine of up to LKR5,000. Therefore, bribery includes both civil and criminal penalties.

Bankruptcy or insolvency

28. What rights do the client and funder have on the contractor's bankruptcy or insolvency?

On the contractor's bankruptcy or insolvency, the other party has the right to terminate the contract(s) and any other rights which may have been contractually agreed for these circumstances.

Public private partnerships

29. Are public private partnerships (PPPs) common in local construction projects? If so, which sectors commonly use PPPs?

PPPs are common in local construction projects in the power and energy sector, rail and transport systems and ports.

30. What local laws apply to public private partnerships (PPPs)?

PPPs are regulated by the 1998 Procurement Guidelines, which are issued by the Ministry of Finance and Planning (MoF) and administered by the National Agency for Public Private Partnerships (NAPPP).

31. What is the typical procurement or tender process in a public private partnership (PPP) transaction? Does the government or another body publish standard forms of PPP project agreements and related contracts?

The main stages of the procurement process are typically:

- Preliminary screening of the proposed project: the line ministry to prepare a financial and technical viability report in consultation with NAPPP. The project must be approved by the MoF. On approval, the line ministry presents a Cabinet Memorandum, seeks approval of the Cabinet and appoints a negotiating committee (CANC).
- The line ministry requests the MoF to appoint a project committee (PC).
- Procurement: the line ministry must solicit proposals from the private sector on the basis of international competitive bidding for the award of the project, through publication of a request for proposals (RFP).
- RFP: the PC must prepare an RFP containing:
 - the criteria for assessing the technical and financial viability of the project;
 - details of specifications;
 - the models of relevant agreements, as determined on a case-by-case basis (Project Agreements);
 - environmental data and information;
 - any other relevant information.
- Bids: the timeline for submission of bids will be normally three months. Bids must be evaluated by the PC in three stages, in accordance with the requirements set out in 1998 Guidelines.
- Assessment of the adequacy of the proposal.
- Assessment of the responsiveness of the bid to the requirements of RFP.

- Evaluation of bids to rank competing bids on clear and objectively verifiable criteria.
- Bids which are responsive must be evaluated through technical, financial and cost screening. CANC will conduct final negotiations with the selected bidder.
- On completion of negotiations, a Letter of Intent (LOI) must be issued to the successful bidder. The successful bidder is required, among other things, to establish the project company during the said exclusivity period and submit a Performance Guarantee as required under the 1998 Procurement Guidelines and as stipulated in RFP.
- Contractual documents: the time between issuance of RFP to signing of the Project Agreements is limited to 12 months, unless extended with the approval of the Cabinet.

Dispute resolution

32. Which are the most common formal dispute resolution methods used? Which courts and arbitration organisations deal with construction disputes?

Formal dispute resolution methods

Courts of law functioning under the Ministry of Justice and arbitration tribunals governed by the Arbitration Act No. 11 of 1995 are the available formal methods of dispute resolution.

Courts and arbitration organisations

Construction contracts typically provide for dispute resolution by relevant professional bodies. For example, CIDA requires that disputes be resolved by means of adjudication, and if no resolution is arrived at, parties can refer the matter to arbitration. Depending on the dispute resolution clauses of the contract, the relevant method will be adopted. In the event of a continuing dispute, parties may have recourse to the courts of law.

If the contract permits direct recourse to litigation, the competent courts are as follows:

- For matters less than LKR20 million: District Court.
- For matters valued at more than LKR20 million: Commercial High Court of Colombo.
- Appeals are heard in the Court of Appeal and can be further appealed to the Supreme Court.

Construction contracts typically stipulate the centre for arbitration (either in Sri Lanka or overseas) to be used and the governing law and arbitration rules to be followed (for example, the rules of UNICITRAL arbitration, Singapore International Arbitration Centre, International Chamber of Commerce, International Court of Arbitration). Where

construction contracts are silent about the applicable rules, these are decided by the parties to the construction contract.

The main arbitration centres are the Sri Lanka National Arbitration Centre and the Institute for the Development of Commercial Law Practice (ICLP) Arbitration Centre.

The websites for the above are as follows:

- Sri Lanka National Arbitration Centre: www.slnarbcentre.com.
- ICLP Arbitration Centre: www.iclparbitrationcentre.com.

33. What are the most commonly used alternative dispute resolution (ADR) methods?

The most commonly used ADR in construction contracts include adjudication by dispute boards and expert determination.

Tax

34. What are the main tax issues arising on projects?

If the construction company is incorporated in Sri Lanka the company is liable to pay the following taxes:

- Corporate income tax:
 - for companies: 24% (the standard rate);
 - profits and income of a company from construction works: 14%.
- Withholding tax when making reportable payments (investment income such as interests, royalties and service payments) are as follows:
 - payments to resident persons are not subject to withholding tax. However, an advance income tax on regular fixed payments such as interest and rent can be deducted by the payer, on the request and declaration made by the recipient. The relevant guideline on such deductions are yet to be published by the Department of Inland Revenue;

- payments (except dividends to non-resident persons) are subject to withholding tax at following rates, subject to the exemptions and the Double Taxation Avoidance Treaty entered into between Sri Lanka and country of residence of recipient, if any:

interest: 5%

payments in relation to land, sea or air transportation or telecommunication services: 2%

any other payments: 14%

- Sales taxes (VAT): standard rate is 8%, subject to exemptions.

35. Are any methods commonly used to mitigate tax liability on projects? Are there any tax incentives to carry out regeneration projects?

Mitigating tax

The services in terms of a construction project in the private sector (except technical services), which can be completed offshore (such as relevant designs, blueprints, 3D interior models and so on) will not be subject to income tax in Sri Lanka.

Tax incentives

Certain tax incentives are provided to construction projects investing in assets deemed depreciable under the Inland Revenue Act No. 24 of 2017, for example:

- Capital allowance of 100% on expenses incurred by a person on depreciable assets (other than intangible assets) during a year of assessment if the total expenses incurred (used in a part of Sri Lanka other than the Northern Province) is greater than USD3 million but less than USD100 million.
- Capital allowance of 150% on expenses incurred by a person on depreciable assets (other than intangible assets) during a year of assessment if the total expenses incurred (used in a part of Sri Lanka other than the Northern Province) exceeds USD100 million.
- Capital allowance of 200% of the expenses incurred by a person on depreciable assets (other than intangible assets) during a year of assessment if the total expenses incurred that are used in the Northern Province of Sri Lanka exceeds USD3 million.

Other requirements for international contractors

36. Are there any specific requirements that international contractors or construction professionals must comply with?

See [Question 18](#).

Reform

37. Are there any proposals to reform construction and projects law?

Proposals to introduce new guidelines for solicited and unsolicited infrastructure projects developed by private sector investors are ongoing.

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Recent transactions

Conducted by the firm:

- Advising China Harbour Engineering Company Limited on certain confidential construction projects.
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- Advising China Machinery Engineering Corporation on confidential construction projects.
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Professional associations/memberships. All authors are members of the Bar Association of Sri Lanka.

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