

Proposed Imputed Rental Income Tax**Key highlights****Report date: 18.06.2024**

The June 2024 IMF country report indicates that Sri Lanka is planning to implement a property tax as an imputed rental income tax, aimed at high-wealth individuals to help recover from its severe economic crisis. This tax, expected to yield 0.2% of GDP by 2025 and 0.4% by 2026, is part of broader revenue-enhancing measures designed to boost government revenue from 8.3% of GDP in 2022 to 15% by 2025. The tax will feature a high threshold to target wealthy property owners and avoid burdening average income earners. Existing property taxes and measures to prevent double taxation will be integrated, with the new tax expected to be implemented by April 2025 following legislative and administrative preparations. This initiative aims to support economic stability, reduce budget deficits, lower interest rates, and strengthen the currency.

Government revenue targets

The revenue targets for 2023 have been largely met and the target for 2024 is on track to reach the required level of 13.5% of GDP by the end of 2024. In the year 2023, tax reforms focused on progressive corporate and personal income tax measures. In 2024, revenue enhancement is supported by Value Added Tax (VAT) reforms, including the elimination of most exemptions and rate adjustments. The main revenue measure expected to help achieve the 2025 target is a wealth tax that is focused on property.

Property tax proposal

The property tax is in an advanced stage of design and therefore, it is premature to outline specific details of rates and thresholds. However, the focus of this tax is on high-wealth individuals, and not on average income earners. This objective will be achieved by a suitable tax-free threshold to ensure that the tax is targeted on very high value property or multiple properties that are owned by the wealthy. IMF report says that the tax will be implemented on owner-occupied and vacant residential properties. Imputed rental income is the deemed income that homeowners could earn if they rented out their homes. The tax is said to be imposed on the income of individuals (rather than real property itself).

The tax is expected to go through the regular legal process of amendments to the required legislation and is expected to come into force in April 2025. In addition to completing the legislative process, there is significant administrative work required to be done in terms of improving valuation mechanisms and databases in order to implement this proposed tax measure that was first announced in March 2023 with the publication of IMF programme.

Impact on listed counters

Companies engaged in the property sector remain exposed to the change in property taxation. Counters engaged in the residential apartments and housing such as Overseas Realty (Ceylon) PLC (OSEA.N), Prime Land Residencies PLC (PLR.N), Millennium Housing Developers PLC (MHDL.N), Kelsey Developments PLC (KDL.N), Lanka Realty Investments PLC (ASCO.N), and Seylan Developments PLC (CSD.N) could potential see some of the effects such as;

- Adjustments to pricing strategies for apartments and houses to accommodate the new tax.
- Higher rental rates leading to lower occupancy levels.
- Increased tax liabilities for high-value residential properties eroding profit margins.
- Potential downward adjustments in property values to reflect higher tax burdens.
- Potential shift in the demand from high-value to lower-value properties (e.g. higher preference for 1BR apartment units instead of 2BR or 3BR).

Further details of the Imputed Rental Income Tax are yet to be published by the government.

AMBEON SECURITIES (PVT) LIMITED

No: 10, 2nd Floor
Gothami Road,
Colombo 08,
Sri Lanka.

T : +94 11 532 8 100

F : +94 11 532 8 177

E: research@ambeonsecurities.lk



Follow our
LinkedIn page for
regular updates



Hit "follow" to
subscribe to our
WhatsApp channel

Sales Team

Charith Kamaladasa

Director/CEO

charithk@ambeonsecurities.lk

Niranjan Niles

Executive Director

niles@ambeonsecurities.lk

Romesh Kenny

Senior Manager Institutional Sales

romesh@ambeonsecurities.lk

Chinthaka Weeraratna

Senior Investment Advisor

chinthaka@ambeonsecurities.lk

Pasindu Yatawara

Senior Investment Advisor

pasindu@ambeonsecurities.lk

Research Team

Hansinee Beddage

Manager Investment Research

hansinee@ambeonsecurities.lk

Shashikala Hanshani

Trainee Investment Research Analyst

Amoda Prasansana

Trainee Investment Research Analyst

DISCLAIMER

Ambeon Securities has taken reasonable steps to ensure the accuracy and reliability of the information presented in this Report. While we strive for accuracy, we do not guarantee the completeness or correctness of the information. The information may be subject to change without notice, and Ambeon Securities is not obligated to update or revise the Report after its initial publication. Any updates or revisions will be made at the sole discretion of Ambeon Securities.

Ambeon Securities, its employees, and affiliates shall not be held liable for any direct or indirect loss or damage that may arise from the use of the information contained in this Report. This includes, but is not limited to, financial losses, lost profits, direct, indirect, incidental, punitive or any other consequential damages.

The information and opinions presented in this Report are for informational purposes only and should not be construed as any offer, investment advice, a recommendation to buy or sell any securities, or an endorsement of any investment strategy. Ambeon Securities does not provide personalized investment advice, and you should consult with a qualified financial advisor before making any investment decisions. This Report may contain forward-looking statements that involve risks and uncertainties. These statements are based on our current expectations and assumptions and are subject to various factors that may cause actual results to differ materially from those expressed or implied in the Report.

This report does not take into account the specific financial situation, investment objectives, or risk tolerance of individual readers. Consequently, investments discussed in this report may not be suitable for all investors. Each reader is responsible for determining the suitability of any investment based on their own circumstances.

Ambeon Securities, its employees, and affiliates may have financial interests in the securities mentioned in this Report. These interests may change without notice, and such positions may have an impact on the opinions expressed in the Report.

This Report is intended solely for the use of the recipient and may not be reproduced, redistributed, or otherwise disseminated to any other person or entity without the express written consent of Ambeon Securities. All rights, including copyright, are reserved.

Investing in securities involves risks, including the risk of loss of principal. Past performance is not indicative of future results, and the value of investments may go up or down. These risks may include, but are not limited to, market risk, liquidity risk, credit risk, geopolitical risk, and other factors that can impact the performance of investments.

By accessing and reading this Report or downloading the report electronically, you acknowledge and agree to the terms and conditions outlined above. If you do not agree with these terms, please refrain from using this Report. Ambeon Securities assumes no responsibility for any unauthorized use of this Report or its contents.