

Chandrawat
& Partners

Guide to do business in
SRI LANKA



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ABOUT SRI LANKA

ADVANTAGES

Sri Lanka consist of a main island and a number of smaller islands. It is a developing economy based largely on agriculture, services, and light industry. Sri Lanka is endowed with lots of natural resources. Its mineral resources include titanium ore, graphite, kaolin, and gemstone with large deposits of unexploited iron ore. However, foreign trade is an important segment of the Sri Lankan economy and the country is largest exporter of black tea in the world also being the third largest producer of natural rubber. Its free market ideology has one of the most liberal foreign trade regimes in the world and has encourage foreign investments in the country.

Recently, in few years, Sri Lanka has achieved high GDP growth, and its per capita now stands at \$4,310 which is substantially higher than many other countries. There is a heightened interest in Sri Lanka as a destination for business and investment:

Knowledgeable and flexible labour force

Sri Lanka has one of the highest levels of literacy in the developing world with well educated, energetic, skilled and semi skilled human resources. In Sri Lanka, widespread investment in public education has contributed to create competent and intelligent workforces, who are well known to high tech production and services technologies.

Location and connectivity

Sri Lanka has strong air connectivity with over 100 weekly flights to India alone. However, the country is also connected to the SEA-ME-WE III and IV (South East Asia - Middle East - Western Europe) fiber optic communication backbone with over 11 communication satellites orbiting above the southern part of the country.

Access to key markets

Providing duty free access to over 1.3 billion consumers from the island, Sri Lanka is the only nation to have free trade agreements with both India and Pakistan. In the year 2000, as an outcome of the Indo Sri Lanka Free Trade Agreement (ISFTA), Sri Lanka got strategic access for over 4,200 products at zero duty to India, which is the world's second most populous market.

Encouraging government policies

Less governmental restrictions in the areas of social, political and economic policy, Sri Lanka has encouraged more foreign investments with measure, such as:

- Several investment laws endeavor to encourage foreign direct investments.
- Entire foreign ownership is allowed for selected areas of the economy.
- Protection of foreign investment is assured by the constitution.
- Existence of a clear and sophisticated legal and regulatory framework, covering all
- precondition business law enactments.

Investment protection and double taxation agreements

Sri Lanka is among the safest countries in the world to invest. Country's constitution guarantees the safety of investment protection treaties and agreements approved by Parliament by two third majority. Country has signed bilateral investment protection agreements with 28 countries and double taxation avoidance agreements with 38 countries.

Individual tax

Resident person in Sri Lanka is required to pay income tax on his global income. However, any income that is derived from outside Sri Lanka by a non citizen who is employed in Sri Lanka will not be liable to income tax in Sri Lanka.

An individual is charged on taxable income on progressive rates based on the level of income. The rates currently applicable are:

on the first Sri Lankan Rupee (LKR) 500,000 is liable to pay 4% of the taxable income;
on the next LKR 500,000 is liable to pay 8% of the taxable income;
on the next LKR 500,000 is liable to pay 12% of the taxable income;
on the next LKR 500,000 is liable to pay 16% of the taxable income;
on the next LKR 1 million is liable to pay 20% of the taxable income; and
Over LKR 1 million is liable to pay 24% of taxable income.

Corporate tax

Currently, the corporate tax rate in Sri Lanka is 28%. Resident companies and public corporations are liable for Corporate Income Tax (CIT) on their worldwide taxable income. A partnership in which at least 20 partners have limited liability for the debts of the partnership is also treated as a company. Whereas, non resident companies are liable for CIT in respect of any business, investment, or other source to the extent that the income arises in or is derived from a source in Sri Lanka.

There are mainly six types of business companies available in Sri Lanka:

Sole Proprietorship

In Sri Lanka, this type of Business Company is considered as the easiest and quickest business procedure to set up. As a sole trader, the investor will be permitted to employ other individuals if needed. However, the sole investor or the business owner is responsible for all sorts of company obligations.

Partnership Company

In a partnership company, from the perspective of legal and tax, all the partners of the company share the obligation. All partners are subjected to personal income tax. Partnership company can have a minimum of 2 and maximum 200 members.

Limited Liability Company (LLC)

This is also known as the Private Limited Business Company in Sri Lanka. It is considered as the most common type of business entity among all other business companies in Sri Lanka. LLC formulation requires a minimum of one company director and two company shareholders. However, no minimum share capital is required to be deposited.

Public Limited Company (PLC)

In Sri Lanka, a Public Limited Companies are said to have a minimum of two company shareholders and two company directors. These companies are permitted to issue their shares on the stock exchange for the public.

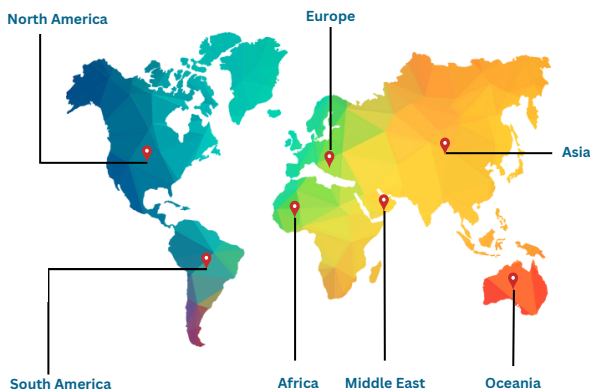
Overseas Company

This type of company can be 100% foreign owned and can also stimulate as a branch. The parent company mainly defines the business nature and types of operations. It must be registered with the treasury and provide a 10% branch tax on its profits.

Offshore Company

An offshore company is registered within Sri Lanka and is permitted to conduct business outside of Sri Lanka; however, it cannot conduct business within the country.

SERVING CLIENTS WORLDWIDE



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