

INLAND REVENUE ACT NO. 24 OF 2017 – AT A GLANCE

(1) Income Tax shall be payable for each year of assessment by;

(a) a person who has taxable income for that year ; or

(b) a person who receives a final withholding payment during that year.

(2) A resident person is liable to tax on his income sources wherever its arises including global.

A non-resident person is liable to tax on the income which arises in or is derived from a source in Sri Lanka.

(3) Sources of Income – **Employment, Business, Investment and Other Sources**

(4) Assessable Income – Adjusted income from each of the above sources. This is gain or profit computed by applying the provisions of the Act.

(5) Taxable Income – Assessable income for the year from sources of income after deducting losses, qualifying payments and reliefs.

(6) Basis of Accounting

Individual – income from employment or investment on cash basis

Individual or Entity – business income on accrual basis

Person – other sources on cash or accrual basis which suitable.

Employment Income

(7) Employment income includes followings –

- Salary, wages, leave pay, overtime, fees, pensions, commission, gratuity, bonus any other similar payments.

- Personal allowances such as cost of living, subsistence, rent, entertainment, or travel.

- Discharge or reimbursement of expenses

- individual's agreement to conditions of employment.

- Retirement contributions made to a retirement fund on behalf of the employee and retirement payments received in respect of the employment.

- Payments or transfers to another person for the benefit of the individual or an associate person of the individual.
- The fair market value of benefits received or derived by virtue of the employment by an individual or an associate person of the individual.
- Other payments, including gifts received in respect of the employment.
- Market value of the shares at the time allotted under an employee share scheme reduced by the employee's contribution for the shares.

(8) Following payments are excluded from employment income;

- Exempt amounts and final withholding payments.
- Discharge or reimbursement of expenses incurred by the individual on behalf of the employer.
- Discharge or reimbursement of the persons dental, medical or health insurance expenses where the benefit is available to all full time employees on equal terms.
- Payments made to or benefits accruing to employees on a non-discriminatory basis.
- The value of a right or option to acquire shares at the time granted to an employee under an employee share scheme.
- Contribution made by an employer to an employee's account with approved pension scheme by CGIR.

(9) Exemptions of Employment income;

- Capital sums paid to a person as compensation or a gratuity in relation to ;
 - * personal injuries suffered by the person or
 - * the death of another person
- Pension income is paid by the Government of Sri Lanka
- An amount paid at the time of retirement from any pension fund or ETF and a provident fund approved by the CGIR.
- Income derived by an employee entitled to privileges under the Diplomatic Immunities Law and other specified conventions.

(10) Deductions of Employment income cannot be done

(11) Retirement Benefits;

Amount received in commutation, retiring gratuity and compensation for loss of office will be taxed at following rates ;

- Where the period of contribution or the period of employment is 20 years or less :

<i>Total income from employment</i>	<i>Tax Payable</i>
On the first Rs. 2,000,000/-	Nil
On the next Rs. 1,000,000/-	5%
On the balance	10%

- Where the period of contribution or the period of employment is more than 20 years;

<i>Total income from employment</i>	<i>Tax Payable</i>
On the first Rs. 5,000,000/-	0%
On the next Rs. 1,000,000/-	5%
On the balance	10%

(12) Employment income relief is Rs. 700,000/- and additional of personal allowance of Rs. 500,000/- (Total Rs. 1,200,000/-).

Business Income

A person's income from a business for a year of assessment shall be person's gains and profits from conducting the business for the year.

(13) Gains and profits from conducting business include following amounts;

- Service fees.
- Consideration received in respect of trading stock.
- Gains from the realization capital assets and liabilities.
- Amounts derived as consideration for accepting a restriction on the capacity to conduct the business.
- Amounts derived as consideration for accepting a restriction on the capacity to conduct the business.
- Gifts received by the person in respect of the business.
- Amounts derived that are effectively connected with the business.
- Other amounts required to be included under this Act.

(14) In calculating person's gains and profit from conducting a business for a year of assessment the following are excluded;

- Amounts exempted and final withholding payments,
- Amounts that are included in calculating the person's income from an employment.

(15) When calculating assessable income from business, all outgoings and expenditure incurred by such person in the production of income are allowable to deduct. Its includes depreciation allowances and repairs.

(16) Disallowed expenditures are included capital expenditures, expenses not incurred in the production of the income and expenses disallowed in the Sec. 10 of the Act.

Investment Income

A person's income from an investment for a year of assessment shall be the person's gains and profits from that investment for the year.

(17) In calculating person's gains and profits from an investment, following amounts received or derived during the year of assessment;

- Dividends, interest, discounts, charges, annuities, natural resource payments, rents, premiums and royalties.
- Gains from the realization of investment assets (Capital Gains).
- Amounts derived as consideration for accepting a restriction on the capacity to conduct the investment.
- Gifts received by the person in respect of the investment.
- Winning from lotteries, betting or gambling
- Any other amounts required to be included under this Act.

(18) Followings can be excluded when calculating investment income ;

- Exempt amounts and final withholding payments
- Amounts that are included in calculating the person's income from employment or business

Other Income

A person's income from other sources for year of assessment shall be that person's gains and profits from any source whatsoever for the year, not including profits of a casual or non-recurring nature.

(19) Followings can be excluded when calculating investment income ;

- Exempt amounts and final withholding payments.

- Amounts that are included in calculating the person's income from employment, business or investment.

Withholding Tax (WHT)

(20) Employment

- Employers are required to deduct WHT on employment income at rates specified by the CGIR.

- Currently, PAYE tax is considered final in the hands of employees who do not have any other source of income. No return of income is to be furnished by an individual who has exclusively employment income.

(21) Investment return

<i>Description</i>	<i>Rate</i>
Dividends	14% or DTA rate in the case of Non-resident Shareholders
Dividend distributed out of local dividends received after WHT deducted	Exempt
Foreign Dividend received	Corporate shareholders – Exempt if substantial controlling power is minimum 10%
Dividend distributed out of foreign dividend received	14%
Interest – resident individual, Charitable institutions, Body of Person, Companies	5%
Interest – Senior Citizens (age over 60 yrs.)	5% if interest income more than Rs. 1.5M per annum
Interest on Government Securities	Nil
Interest on Listed/Unlisted Debt Securities	5%
Rent - Residents	10%
Rent – Non-resident	14%
Royalty – Resident/Non-resident	14%
Lottery, reward, betting or gambling	14%

(22) A partnership is not liable for income tax on its taxable income instead a WHT of 8% will be deducted from relevant shares of any partner's income from the partnership.

(23) It is imposed 2.5% WHT from the sale price of any gem sold at an auction conducted at the time of such sum is paid to the seller.

(24) Service fees to residents to withhold tax at 5% amounts exceeding Rs. 50,000/- per month from the following services fees with a source in Sri Lanka to a resident individual who is not an employee of the payer;

- Teaching, lecturing, examining, invigilating, or supervising an examination.
- As a commission or brokerage to a resident insurance, sales or canvassing agent
- As an endorsement fees
- Supply of any article on a contract basis through tender or quotation
- Other matters as may be prescribed by regulation.

(25) Any person paying a service fee or an insurance premium with a source in Sri Lanka to an non-resident person is to withhold 14% on such payment.

(26) Exemptions from WHT

- Payments subject to withholding under employment income
- Payment made by individuals unless made in conducting a business
- Interest paid to a financial institution on the ordinary loans and advances provided by it
- Interest or discounts paid to any person on security bonds treasury bills
- Any exempted amounts referred to a 3rd Schedule of the Act.
- A company pay dividend to a non-resident who spend more than USD 1,000 million on depreciable assets.
- A company making employment income of expatriate employees has incurred more than USD 1,000 million on depreciable assets.

(27) WHT payments have to be done within 15 days after the end of each calendar month. WHT return has to be filed within 30 days from the end the year of assessment.

(28) WHT agent will be liable for the tax that should have been withheld. WHT agent and withholdee can be jointly and severally liable for the tax not withheld.

(29) WHT agent shall prepare and serve on a withholdee a withholding certificate in due time in the form specified.

Capital Gains

(30) Investment Asset – Capital asset held as part of an investment but excludes the principal place of residence of an individual, provided it has been owned by the individual continuous for the 3 years.

(31) Capital Asset – Its includes following assets;

- Land or Building
- A membership interest in a company, partnership or trust
- A security or other financial asset (Bank deposits, bonds, stocks, etc.)
- An option right or other interest in an asset.

(32) Capital gain is calculated as the difference between the consideration received and the cost of the investment asset at the time of realization. Cost of old assets will be calculated the market value as at 30th September 2017 and other assets only purchased price.

(33) Following capital gains are excluded;

- Gain made by a resident individual on the realization of the individual's principal place of residence, if its owned by the individual continuously for 3 years before being realized and lived in at least 2 of those 3 years.
- Investment asset consisting of shares quoted in any official list published by any stock exchange licensed by the SEC of Sri Lanka.
- A gain made by resident individual from the realization of investment asset that does not exceed Rs. 50,000/- and in the year of assessment do not exceed Rs. 600,000/-.

(34) Capital gains tax return is required to be filed not later than one month after the realization of investment asset.

(35) Tax on gains will be 10%.

Tax Rates (First Schedule)

(36) Resident and non-resident individuals

<i>Taxable Income</i>	<i>Tax Rate</i>
Less Than Rs. 600,000/-	4%
Rs. 600,001/- to Rs. 1,200,000/-	8%
Rs. 1,200,001/- to Rs. 1,800,000/-	12%
Rs. 1,800,001/- to Rs. 2,400,000/-	16%
Rs. 2,400,001/- to Rs. 3,000,000/-	20%
Over Rs. 3,000,000/-	24%

(37) Gains from the realization of investment assets shall be taxed at the rate of 10%.

(38) Retirement Benefits;

Amount received in commutation, retiring gratuity and compensation for loss of office will be taxed at following rates ;

- Where the period of contribution or the period of employment is 20 years or less :

<i>Total income from employment</i>	<i>Tax Payable</i>
On the first Rs. 2,000,000/-	Nil
On the next Rs. 1,000,000/-	5%
On the balance	10%

- Where the period of contribution or the period of employment is more than 20 years;

<i>Total income from employment</i>	<i>Tax Payable</i>
On the first Rs. 5,000,000/-	0%
On the next Rs. 1,000,000/-	5%
On the balance	10%

(39) Income from business consisting of betting and gaming, liquor or tobacco shall be taxed at 40%.

(40) Tax rate for partnerships

Where taxable income includes gains from the realization of investment assets will be taxed at the rate of 10%.

(41) Tax rate for Trusts

Taxable income of a trust for a year of assessment shall be taxed at 24%.

(42) Tax rate for companies

- Taxable income of a company for a year of assessment shall be taxed at 28%.

- Small and Medium Enterprises, exporting goods and services, agricultural business, providing educational services, engaged in an undertaking for the promotion of tourism, providing information technology services shall be taxed at 14%.

- Income from business consisting of betting and gaming, liquor or tobacco shall be taxed at 40%.

(43) Tax rate for unit trust or mutual funds

Taxable income of a unit trust or mutual funds for a year of assessment shall be taxed at 28%.

(44) Tax rate for charitable institutions

Taxable income of a unit trust or mutual funds for a year of assessment shall be taxed at 14%.

(45) Tax rate for Non-governmental organizations

Taxable income of a unit trust or mutual funds for a year of assessment shall be taxed at 28%.

(46) Tax rate for ETF, approved provident or pension funds and an approved termination fund for a year of assessment shall be taxed at 14%.

(47) Remittance tax rate payable by a non-resident person who has remitted profits under section 62 shall be at 14%.

Exempted Amounts (Third Schedule)

(48) Amounts derived by;

- Government of Sri Lanka, local authority and government department.
- Central bank including the monetary board.
- Any university established under the Universities Act No. 16 of 1978.

- Any government assisted private school which is not registered under Companies Act No. 7 of 2007.
- Any corporative society registered under Corporative Societies Law No. 5 of 1972.
- Government of a foreign country to the extent specified under a diplomatic immunities law.
- An international organization to the extent specified under a diplomatic immunities law.

(49) Capital sums paid to a person as compensation or gratuity in relation to,

- personal injuries suffered by the person or
- the death of another person

(50) Pension of a person where the pension income is paid by the government of Sri Lanka.

(51) An amount paid to an employee at the time of retirement from –

- Any pension fund or the ETF.
- Provident fund approved by the CGIR.

(52) Income of an individual entitled to privileges to the extent provided for by ;

- a diplomatic immunities law,
- an Act giving effect to the convention on the privileges and immunities of the UN,
- regulations made under this Act relating to an international organization.

(53) A gain made by a resident individual from the realization of an investment asset that does not exceed Rs. 50,000/- and during the year of assessment Rs. 600,000/-.

(54) A gain made by a resident individual on the realization of the individual's principal place of residence, provided that it has been owned continuously 3 years.

(55) Gain made by sale of shares in any official list published by any stock exchange licensed by the SEC of Sri Lanka

- (56) Interest derived by a charitable institution, where it is proved to the satisfaction of the CGIR.
- (57) Any prize received by a person as an award made by the President of the Republic of Sri Lanka or by the Government.
- (58) Any sum received by a person from the President's Fund established by the President's Fund Act No. 7 of 1978 or National Defense Fund 9 of 1985,
- (59) Interest or discount paid or allowed to any non-resident person or to any licensed Commercial bank in Sri Lanka, by the issuer of any sovereign bond denominated in foreign currency issued on or after 21st October 2008, by or on behalf of the Government of Sri Lanka.
- (60) Any amount derived by a senior citizen from an annuity for life for period of less than 10 years purchased from a bank or an insurance company.
- (61) Any winning from a lottery, the gross amount of which does not exceed Rs. 500,000/-.
- (62) Dividend paid by a resident company out of dividend received from another company which WHT has deducted.
- (63) Benefit received by an employee of government of Sri Lanka from a road vehicle permit issued to that employee.
- (64) Profits and income from any property donated by royal or other grant to any place of public worship administered by a charitable institute.
- (65) Dividends from and gains on the realization of shares in a non-resident company where derived by a resident company with respect to a substantial participation in the non-resident company.

Capital Allowances of Depreciable assets (Fourth Schedule)

<i>Class</i>	<i>Depreciable Assets</i>	<i>No. of years as per straight line method</i>
1	Computers and data handling equipment together with peripheral devices	5
2	Busses and minibuses, goods vehicles ; construction earth-moving equipment, heavy general purpose or specialized trucks, trailers and trailer-mounted containers, plant and machinery used in manufacturing	5
3	Railroad cars, locomotives and equipment; vessels, tugs, and similar water transportation equipment; aircraft; specialized public utility plant, equipment, and machinery; office furniture, fixtures and equipment; any depreciable asset not included in another class	5
4	Buildings, structures and similar works of a permanent nature	20
5	Intangible assets, excluding goodwill	Actual useful life of the asset or where asset has an indefinite useful life, 20.

Allowable Expenditures

- Capital Allowance / Amortization of intangible assets.
- Repairs and improvements
- Bad Debts incurred and Provision for doubtful debts.
- Interest Expenses
- Contribution to a pension, provident or savings fund approved by CGIR.
- Research and Development expenses
- Royalty and ground rent
- Allowance for trading stock
- Expenses in relation to long term contracts
- Travelling expenses in connection with the business
- Taxes payable under any statute enacted by a Provincial Council in relation to the business.

- Any other expenses incurred in the production of income unless specifically disallowed.

Disallowed Expenditures

- Domestic or private expenditures
- Entertainment expenditure
- Capital nature expenses
- Expenses not incurred in the production of income
- Interest, penalties and fines payable any breach of law.
- Expenditure incurred to derive exempt income or final withholding payments.
- Amounts incurred on lotteries, betting or gambling
- A payment on which tax should have been withheld by a payer and where such tax has not been paid to the CGIR
- Income tax and other prescribed levy
- Amounts transferred to any reserve or provision
- Head office expenses over 10% of assessable income
- Depreciation allowance for motor vehicles used for travelling