



Implementation of proposed changes to Inland Revenue Act No 24 of 2017 as issued by paper notice dated 8th April 2020



1. Introduction of Advance Income Tax – w.e.f. 1 April 2020

- Regular profits from employment

Withholding tax on employment income other than terminal benefits (PAYE deduction) was abolished w.e.f. January 01, 2020. **However**, w.e.f from April 01,2020, an employee whose gross remuneration exceeds Rs. 250,000 per month or Rs. 3,000,000 for a year of assessment, **may request** the employer to deduct an “Advance Personal Income Tax”. (A separate guideline will be published for this purpose in due course).

- Payments to resident persons

WHT on payments to resident persons was abolished w.e.f . January 01, 2020. However w.e.f from April 01,2020 a recipient of a fixed regular payment falling into any of the categories given below, may request (by declaration) a withholding agent (WHA) to deduct an “Advance Income Tax”;

- > dividend
- > interest
- > discount
- > charge
- > natural resource payment
- > rent
- > royalty
- > premium or retirement payment received and /or on service performed by such individual

(A separate guideline will be published for this purpose in due course, which would presumably include the rates of deduction).

WHT applicable on amounts paid to a resident partner in respect of such partner’s share of profit allocated by the partnership, was removed w.e.f. January 2020. However the Advance Income Tax option referred to above, does not apply in this scenario.

Furthermore, WHT will continue as it is on the following payments, and the recipient is not required to make a request on the deduction.

- Amounts as winning from lottery, reward, betting or gambling - 14%.
- Sale price payable to the seller of any gem sold at an auction conducted by the National Gem & Jewellery Authority - 2.5%

2. WHT on Payments to Non- Residents w.e.f January 1, 2020

- Following WHT rates prescribed previously for payments to non-residents which has a **source in Sri Lanka**, subject to provisions of Double Tax Avoidance Agreement (DTAA), will continue to apply;
 - > Dividend - Exempt
 - > Interest (Excluding exempt Interest) - 5%
 - Interest to any non-resident individual and citizen of Sri Lanka where interest is > LKR 250k p.m or LKR 3Mn p.a (for the period from 01.01.2020 to 31.03.2020 if > LKR 750k) - 5%
 - > Payment with respect to land, sea, air transport or telecommunication - 2%
 - > Employment and service payments - 14%

3. Personal Income Tax – w.e.f. 01 January 2020

- Tax free allowance - Rs 3Mn for each Year of assessment (Y/A) for resident or citizen
- Tax rates - Taxable income from all sources including compensation for loss of office which has not been approved by the Commissioner General of Inland Revenue (CGIR), payment from provident fund (which is not a regulated fund or not an approved fund by the CGIR), other termination payments or any retirement non-cash benefit in excess of Rs 3mn are taxed at following rates;

Taxable Income	Tax Payable
1 st - Rs. 3 Mn	6%
2 nd – Rs. 3 Mn	12%
On the balance	18%

- Tax rates - Approved terminal benefits from employment

<i>Total terminal benefits from employment (Commutated pension, retiring gratuity, ETF or Approved compensation)</i>	<i>Tax Payable</i>
1st - Rs. 10,000,000	0%
2 nd -Rs. 10,000,000	6%

- Tax rates - Business consisting of betting and gaming, manufacture and sale or import and sale of any liquor or tobacco products – 40%
(In the previous notice issued by the IRD, the rate applicable to these businesses was 28%)
- Qualifying Payment (QP) relief - resident individual may deduct up to LKR.1.2 Mn per Y/A of the following expenditure in arriving at the Taxable Income;
 - (a) Health expenditure including contributions to medical insurance;
 - (b) Educational expenditure incurred locally, for such individual or on behalf of his children;
 - (c) Interest paid on housing loans;
 - (d) Contributions made to an approved pension scheme;
 - (e) Expenditure incurred for the purchase of equity or security.
- As per the press release issued by the President’s office, it appears that any contributions made by resident or non-resident persons to the COVID-19 fund established by the Government of Sri Lanka will be considered as a tax-deductible expenditure. The contributions are to be made to a special account opened in the Bank of Ceylon.

4. Payment of taxes and return filing obligations

- The advance income tax paid at source will not be a final tax and taxpayers are required to declare the income from above sources in their income tax return.
- Taxpayers are required to pay taxes on a self-assessment basis at progressive rates, after crediting advance taxes deducted subject to the provisions of the Inland Revenue Act.
- Further, in arriving at the taxes payable, the QP relief mentioned above, may also be deducted.
- Those who have not registered for tax are required to register with IRD for this purpose.

5. Partnerships – w.e.f. 01 January 2020

WHT of 8% on any partner's share of partnership income is replaced with a tax on partnership with effect from January 01,2020, applied as follows;

Taxable Income		Tax Rate
If taxable income consists of Gains on realization of investment assets	Gains on realization of investment assets	10%
Balance Taxable Income	Not exceeding Rs. 1,000,000	0%
	Exceeding Rs. 1,000,000	6% on the excess of Rs. 1,000,000

6. Corporates – w.e.f. 01 January 2020

Income Tax Rates

- on taxable income of a company - 24%
- on gains and profits from following specific businesses¹ - 14%
 - i. Small and Medium enterprises (as defined in section 195)
 - ii. Conducting a business of sale of goods or merchandise where the payment for such sale is received in foreign currency and remitted through a bank to Sri Lanka
 - iii. Specified undertaking (as defined in section 195)

Eg: entrepot trade; offshore business; front end services to clients abroad; specified headquarters operations of leading buyers; specified logistic services; transshipment; freight forwarding; supply of specified services to any exporter of goods or services or to any foreign principal of such exporter; services provided by an agent of a ship operator to its foreign principal; production or manufacture, and supply to an exporter of non-traditional goods;

¹ In case of sole proprietorships there is a possibility that the rate may go up to 18% (except in the case of dividends) as individuals are taxed at progressive rates

- iv. Educational services
 - v. Promotion of tourism
 - vi. Construction services
 - vii. Agro processing
 - viii. Healthcare services
 - ix. Dividends received from a resident company
- On gains and profits from Manufacturing - 18%
 - On gains and profits from conducting betting and gaming - 40%
 - On gains and profits from manufacture and sale or import and sale of any liquor or tobacco products - 40%

7. General Exemptions

Interest – w.e.f 01 April,2018

- The interest accruing to or derived by any person outside Sri Lanka on any loan granted to any person in Sri Lanka or to the Government of Sri Lanka
- Any income earned by way of interest, discount or realization of any gain on any sovereign bond denominated in local or foreign currency by any non-resident person (other than a Sri Lankan permanent establishment)
- Any income earned by any person way of interest or discount paid or allowed, as the case may be, on any sovereign bond denominated in foreign currency, including Sri Lanka Development Bonds, issued by or on behalf of the Government of Sri Lanka

Interest – w.e.f 01 January 2020

- The interest accruing to or derived by any person on moneys lying to his credit in foreign currency in any foreign currency account opened by him or on his behalf, in any commercial bank or in any specialized bank, with the approval of the Central Bank of Sri Lanka

Dividends – w.e.f 01 January 2020

- A dividend paid by a resident company to a member to the extent that dividend payment is attributable to, or derived from, another dividend received by that resident company or another resident company.
- A dividend paid by a resident company to a member who is a non-resident person;

- A dividend paid by a resident company which is engaged in any one or more of the following businesses in accordance with the provisions of the PART IV of the Finance Act No. 12 of 2012 and within the meaning of an agreement entered into with the Board of Investment of Sri Lanka established under the Board of Investment of Sri Lanka Law, No.4 of 1978:-
 - (i) Entrepot trade involving import, minor processing and re-export;
 - (ii) Offshore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing the same into Sri Lanka;
 - (iii) Providing front end services to clients abroad;
 - (iv) Headquarters operations of leading buyers for management of financial supply chain and billing operations;
 - (v) Logistic services such as bonded warehouse or multi- country consolidation in Sri Lanka.
- Dividends from and gains on the realization of shares in a non-resident company where derived by any person with respect to a substantial participation² in the non-resident company. (Previously the exemption was only available to a resident company.)

Agro Farming – w.e.f 01 April, 2019

- Gains and profits earned by any person from the sale of produce of an undertaking for agro farming of such person without subjecting such produce to any process of production or manufacture.

Other Sources – w.e.f 01 January,2020

Income, gains and profits derived by any person from;

- providing information technology and enabled services as may be prescribed;
- any service rendered in or outside Sri Lanka to any person to be utilized outside Sri Lanka, where the payment for such services is received in foreign currency and remitted through a bank to Sri Lanka;
- any foreign source (other than gains and profits referred to in the immediately preceding paragraph) where such gains and profits earned or derived in foreign currency and remitted through a bank to Sri Lanka

Any amount derived by;

- any non-resident person from laboratory services or standards certification services;
- Any religious institution which is registered with the Ministry in charge of the subject of religious affairs, by way of grants or donations
- Any sum received by any Public Corporation out of the funds voted by Parliament from the Consolidated Fund or out of any loan arranged through the Government w.e.f 01.04.2018

² “substantial participation” means -

(i) holding 10 percent or more of the value of shares in the company, excluding redeemable shares; together with
 (ii) control, either directly or indirectly, of 10 percent or more of the voting power in the company;

Let's Talk

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