



DEPARTMENT OF INLAND REVENUE

Implementation of Proposals on Economic Service Charge and Income Tax on the Instruction of the Ministry of Finance

As instructed by the Ministry of Finance and published in the website of the Ministry, the Economic Service Charge (ESC) and Income Tax proposals made by Budget 2016 shall be revised and implemented with effect from 01.04.2016 as follows;

ECONOMIC SERVICE CHARGE (ESC)

- (i) The present exclusion of profit making business from chargeability of ESC shall be removed.
- (ii) The present maximum liability of Rs. 120 million per year shall be removed.
- (iii) The rate is increased from 0.25% to 0.50%.
- (iv) The period for carried forward of ESC to be set off against income tax payable for any period commencing from April 1, 2016 is reduced from 5 years to 3 years (including the year of assessment in which the payment is due).
- (v) Petrol, diesel and kerosene retail trade shall be liable for ESC if the aggregate turnover for a Quarter is Rs.50 million. Tax shall be calculated on 1/10th of the liable turnover of such trade.
- (vi) ESC shall be charged in advance by the Commissioner General of Inland Revenue from the importers of items subject to Special Commodity Levy (SCL), on the CIF value of such imports, before clearance of such items from the Sri Lanka Customs, disregarding the threshold for ESC liability.

The advance payment of ESC could be set off against the actual liability of ESC for the same year of assessment and not entitle for any refund.

INCOME TAX

1. Income Tax Rates – Corporate

- (i) Income tax rates for certain sectors will continue as prevailed in the year of assessment 2015/2016. Accordingly, profits from following trades and businesses shall be taxed at the given rate.
- Banking and Financial services - 28%
 - Insurance Industry - 28%
 - Trading activities - 28%
(including any primary preparation for the adapting for sale of any article)
 - Liquor - 40%
 - Tobacco - 40%
 - Lottery - 40%
 - Betting & Gaming - 40%
- (ii) Profit and income from trade and business other than the trades or businesses stated above are liable at the standard rate of 17.5%.
- (iii) Income from other sources (other than trade or business) such as interest income, royalty, dividend etc, shall continue at the appropriate rates prevailed in the year of assessment 2015/2016 depending on the source of income.

2. Income Tax – Non Corporate

(A) Individuals

Progressive income tax rates, tax free allowance, the tax deduction and tax exemptions on the profit from employment, currently applicable (for the Y/A 2015/2016) on personal income tax including Pay-As-You-Earn (PAYE) tax shall be continued.

i. Tax Free Allowance

Tax free allowance for individuals will continue as prevailed in the year of assessment (Y/A) 2015/2016. Accordingly,

- Tax Free allowance (per Y/A) - Rs. 500,000
- Qualifying Allowance on Employment Income Rs. 250,000 (Maximum)

ii. Income Tax Rates

Tax rates for individuals shall continue in the progressive rates as prevailed in the year of assessment (Y/A) 2015/2016. Accordingly, maximum rate applicable is as follows.

- Employment income - 16%
- Profits from profession or vocation- 17.5%

- Profits from following trades and businesses
 - o Financial activity - 24%
 - o Trading activities - 24%
 - o Liquor - 40%
 - o Tobacco - 40%
 - o Lottery - 40%
 - o Betting & Gaming - 40%
- Profits from trade and business other than the trade or businesses stated above, are liable at the maximum rate of 17.5%.
- Income from other sources (other than the above stated sources) such as rent income, net annual value, and similar sources should be taxed up to the maximum rate of 24%.

iii. Applicability of PAYE table of 2015/2016

The PAYE tax tables of the year of assessment 2015/2016 could be applied for the year of assessment commencing from 01.04.2016.

However, the Ministry of Finance has informed that provisions preventing employer settling employee’s PAYE tax liability (instead of deducting from employee’s remuneration) will be introduced. Therefore, the tax table No. 6 (Tax on Tax Rates) has no application.

(B) Others

Income tax rates applicable for the year of assessment 2015/2016 should be continued.

(C) WHT Deduction on Interest

The deduction of Withholding Tax (WHT) by Bank or Financial institution on interest from deposits at the rate of 2.5% shall be continued.

For any further clarification, please contact:

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