

SALIENT FEATURES OF THE INLAND REVENUE ACT NO. 24 OF 2017



NHCo

NIMAL HETTARACHCHI & CO.
CHARTERED ACCOUNTANTS

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31st March, 2018.

Dear Client,

SALIENT FEATURES OF THE INLAND REVENUE ACT NO. 24 OF 2017

The Inland Revenue Act No. 24 of 2017 (“the Act”) which will be implemented from 01st April, 2018 will have a significant impact on the tax payers since it replaces the Inland Revenue Act No. 10 of 2006 and its long established practices.

The Act was introduced with a view to simplifying the tax provisions and widening the tax base by addressing various forms of tax base erosions on employment, business, investment and other income and by reintroducing capital gain tax.

We have compiled a memorandum contained herein, on the salient features of the Act. This memorandum is prepared in summary form and should not be used as a substitute to detailed advice given by our firm. Therefore, any conclusion should be arrived at only after due consultations and professional advice.

We hope this will serve its purpose by acting as a useful reference guide of the Act.

This publication is also available in our website www.nh-co.lk.

**Thanking You,
NIHAL HETTIARCHCHI & CO.,**



Chartered Accountants

1. INTRODUCTION

1.1 Income Tax Payable

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.

Accordingly, income tax payable is computed as follows:

	Rs.
Tax on taxable income (Taxable income X Tax rates)	XXXXXX
Tax on final withholding payment (Final withholding payment X Tax rates)	<u>XXXXXX</u>
Income tax payable	<u>XXXXXX</u>

1.2 Final Withholding Payments

The following shall be the final withholding payments:-

- (a) Dividends paid by a resident company to a resident person;**
- (b) Interest paid to or treated as being derived by—**
 - (i) A resident individual (other than such amount of interest paid to a senior citizen falling within the relief threshold in paragraph 2 (d) of the Fifth Schedule to this Act);**
 - (ii) A charitable institution;**
- (c) Amounts paid as winnings from a lottery, reward, betting or gambling, other than amounts received in conducting a business consisting of betting and gaming;**
- (d) Payments made to non-resident persons that are subject to withholding or payments made by individuals not in the course of business to non-resident persons. However, payments derived through a Sri Lankan permanent establishment will not be a final withholding payment.**

2. TAXABLE INCOME, ASSESSABLE INCOME AND SOURCES OF INCOME

2.1 Taxable Income

The taxable income of a person shall be computed as follows:

	Rs.
Assessable income from “Employment”	XXXXXX
Assessable income from “Business”	XXXXXX
Assessable income from “Investment”	XXXXXX
Assessable income from “Other sources”	<u>XXXXXX</u>
	XXXXXX
Less ; Qualifying payments and Reliefs	<u>(XXXXXX)</u>
Taxable Income	<u>XXXXXX</u>

The taxable income of each person and the assessable income from each source shall be determined separately.

2.2 Assessable Income

The assessable income of a person for a year of assessment from employment, business, investment or other source shall be equal to –

- (a) in the case of a resident person, the person's income from employment, business, investment or other source for that year, wherever the source arises; and**
- (b) in the case of a non-resident person, the person's income from the employment, business, investment or other source for that year, to the extent that the income arises in or is derived from a source in Sri Lanka.**

2.3 SOURCES OF INCOME

2.3.1 Employment Income

Employment income includes:

- (a) Payments of salary, wages, leave pay, overtime pay, fees, pensions, commissions, gratuities, bonuses and other similar payments;**
- (b) Payments of personal allowance, including any cost of living, subsistence, rent, entertainment or travel allowance;**
- (c) Payments providing discharge or reimbursement of expenses incurred by the individual or an associate of the individual;**
- (d) Payments for the individual's agreement to conditions of employment;**
- (e) Payments for redundancy or loss or termination of employment;**

2.3.1 Employment Income (Cont.)

Employment income includes:

- (f) Subject to paragraph (f) of subsection (3), retirement contributions made to a retirement fund on behalf of the employee and retirement payments received in respect of the employment;**
- (g) Payments or transfers to another person for the benefit of the individual or an associate person of the individual;**
- (h) The fair market value of benefits received or derived by virtue of the employment by an individual or an associate person of the individual;**
- (i) Other payments, including gifts received in respect of the employment;**
- (j) The market value of shares at the time allotted under an employee share scheme, including shares allotted as a result of the exercise of an option or right to acquire the shares, reduced by the employee's contribution for the shares.**

2.3.1 Employment Income (Cont.)

Employment income excludes:

- (a) Exempt amounts and final withholding payments;**
- (b) A discharge or reimbursement of expenses incurred by the individual on behalf of the employer;**
- (c) A discharge or reimbursement of the person's dental, medical or health insurance expenses where the benefit is available to all full-time employees on equal terms;**
- (d) Payments made to or benefits accruing to employees on a non- discriminatory basis that, by reason of their size, type and frequency, are unreasonable or administratively impracticable for the employer to account for or to allocate to the individual;**
- (e) The value of a right or option to acquire shares at the time granted to an employee under an employee share scheme;**
- (f) Subject to conditions as may be specified by the Commissioner-General, contributions made by an employer to an employee's account with a pension, provident or savings fund or savings society approved by the Commissioner - General.**

2.3.2 Business Income

Business income includes:

- (a) Service fees;**
- (b) Consideration received in respect of trading stock;**
- (c) Gains from the realisation of capital assets and liabilities of the business as calculated under Chapter IV;**
- (d) Amounts required to be included by the Second or Fourth Schedule to this Act on the realisation of the person's depreciable assets of the business;**
- (e) Amounts derived as consideration for accepting a restriction on the capacity to conduct the business;**
- (f) Gifts received by the person in respect of the business;**
- (g) Amounts derived that are effectively connected with the business and that would otherwise be included in calculating the person's income from an investment;**
- (h) Other amounts required to be included under this Act.**

2.3.2 Business Income (Cont.)

Business income excludes:

- (a) Exempt amounts and final withholding payments;**
- (b) Amounts that are included in calculating the person's income from an employment.**

2.3.3 Investment Income

Investment income includes:

- (a) Dividends, interest, discounts, charges, annuities, natural resource payments, rents, premiums and royalties;**
- (b) Gains from the realisation of investment assets as calculated under Chapter IV;**
- (c) Amounts derived as consideration for accepting a restriction on the capacity to conduct the investment;**
- (d) Gifts received by the person in respect of the investment;**
- (e) Winnings from lotteries, betting or gambling;**
- (f) Other amounts required to be included under this Act.**

Investment income excludes:

- (a) Exempt amounts and final withholding payments;**
- (b) Amounts that are included in calculating the person's income from an employment or business.**

2.3.3.1 Gain From The Realization Of An Investment Asset (Capital Gain Tax)

2.3.3.1.1 Investment Assets

(a) Investment assets are capital assets held as part of an investment.

Capital asset means

- (i) land or buildings;
 - (ii) a membership interest in a company, partnership or trust;
 - (iii) a security or other financial asset;
 - (iv) an option, right or other interest in an asset referred to in the above;
- but excludes trading stock or a depreciable asset.

2.3.3.1.2 Realisation

A person who owns an asset is treated as realising the asset:-

- (a) When the person parts with ownership of the asset, including when the asset is sold, exchanged, transferred, distributed, cancelled, redeemed, destroyed, lost, expired, expropriated or surrendered;
- (b) In the case of an asset of a person who ceases to exist, including by reason of the death of an individual, immediately before the person ceases to exist;

2.3.3.1.2 Realisation (Cont)

- (c) In the case of an asset other than trading stock or a depreciable asset, where the sum of consideration received from owning the asset exceeds the cost of the asset;**
- (d) In the case of an asset that is a debt claim owned by a person, the person reasonably believes the debt claim will not be satisfied, where the person has taken reasonable steps in pursuing the debt claim and the person writes the debt off as bad;**
- (e) In the case of trading stock, a depreciable asset, a capital asset of a business or an investment asset, immediately before the person begins to employ the asset in such a way that it ceases to be an asset of any of those types; (change of use) and**
- (f) In the event of change of residence**

An asset is considered as realised while retaining the ownership in situations described in above (c) to (f). In such situations, it is considered that the asset is realised and reacquired at the market value. Therefore, tax on realisation of investment assets needs to be paid while ownership of the asset remains with the person.

2.3.3.1.3 Calculation of Tax on Realisation of Investment Assets

(a) Tax on realisation of investment assets is computed as follows.

$$\text{Capital Gain} = \text{Consideration received} - \text{Cost of the Asset}$$

(b) Where the asset is used in the production of two or more sources of income, the cost and consideration received for the asset are apportioned between each source according to the market value of the parts used to produce each source .

(c) Cost of the investment asset held as at 30th September 2017 is equal to the market value of the asset at that time. Therefore, value increases over and above 30th September 2017 market value of investment assets only will be liable to tax on realisation of investment asset. However, this concession is not available for capital assets used in a business.

2.3.3.1.4 Exemptions

- (a) Disposal of the principle place of residence if it is owned continuously for 3 years before disposal and lived in it for at least 2 years.
- (b) Gains made by a resident individual from the realization of investment assets that does not exceed Rs. 50,000/- per asset and does not exceed Rs. 600,000/- per annum in total.
- (c) Gains from the realisation of assets consisting of shares quoted in any official list published by any stock exchange licensed by the SEC Sri Lanka.

2.3.3.1.5 Exclusions

In the following situations, there is no gain from realisation of an investments asset as it deems the amount realised from the transfer is equal to the net cost of asset.

- (a) Transfer of an asset to a spouse or former spouse due to death or as part of a divorce settlement or bona-fide separation agreement where the transferee specifically requests for this exclusion to apply in writing.
- (b) Transfer on death – the realisation of any asset upon the death of an individual.
- (c) Transfer to an associate (child, spouse, parent, etc) an interest in a land or building by an individual.
- (d) Transfer to a charitable institution, a land or building by way of a gift by an individual.

2.3.4 Other Income

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

Other income excludes:

- (a) Exempt amounts and final withholding payments;**
- (b) Amounts that are included in calculating the person's income from an employment, business or investment.**

2.4 Exempt Amounts

The following shall be exempt amounts:-

- (a) A gain on realization of principal place of residence owned by an individual continuously for three years and lived in for at least two of those three years.
- (b) A gain less than Rs. 50,000/- on the realisation of an investment asset where the total gain for an year of assessment does not exceed Rs. 600,000.
 - If an investment is realised in parts the total gain should be less than Rs. 50,000/-.
 - If an investment asset is jointly owned the total gain by all owners should be less than Rs. 50,000/-.
- (c) Capital sums paid as compensation or gratuity in relation to.
 - Personal injuries suffered by the person or
 - The death of another person.
- (d) Pension paid by the Government or a Department of the Government.
- (e) Amount received by an employee at the time of retirement from ETF that represents income derived by ETF for any period after 1st April 1987 from investment made by it.
- (f) Amount received by an employee at the time of retirement from a provident fund approved by CGIR.

2.4 Exempt Amounts (Cont.)

- (g) Income of an individual entitled to privileges provided by:-**
 - A diplomatic immunities law or similar law
 - United Nations Organisations and it's specialised agencies.
- (h) Employment income of the President.**
- (i) Amount derived by a senior citizen from an annuity for life or a period in excess of ten years purchased from a Bank or an Insurance Company.**
- (j) Value of road vehicle permit issued to employee of Government of Sri Lanka.**
- (k) Gain on realization of shares quoted in CSE.**
- (l) Any prize received as an award from President or Government for invention created or research undertaken.**
- (m) Any sum received from President Fund or National Defence Fund.**
- (n) Winning from lottery less than Rs. 500,000 (gross amount).**
- (o) Interest income solely applied for providing care to children, elderly or disabled in a home maintained by a Charitable Institution.**
- (q) Dividend received from another resident Company after deducting WHT.**
- (r) Dividends and gains on realisation of shares in a non resident company if minimum of 10% shareholding together with minimum of 10% voting power is held.**

2.4 Exempt Amounts (Cont.)

- (p) Profits and income from property donated by Royal or other grant before 2nd March 1815 to any place of public worship if such profits and income are applied to the purposes for which grant was made.**
- (s) Interest or discount received from foreign currency sovereign bonds issued on or after 21st October 2008, by or on behalf of Government.**

Institutional Exemptions - Third Schedule

- 1) Government of Sri Lanka, local authority and any Government Department.**
- 2) Central Bank of Sri Lanka including Monetary Board .**
- 3) Any University established or deemed to be established under the Universities Act No. 16 of 1978 or Buddhist and Pali University of Sri Lanka Act No. 17 of 1981.**
- 4) Government assisted private school which registered with Ministry of Education and follow the circulars issued by the Government and Ministry of Education (Private Schools established under Companies Act No. 7 of 2007 are not exempt)**
- 5) Societies registered under Co-operative Societies Law No. 5 of 1972**
- 6) Foreign Governments specified under diplomatic immunities law or a similar law.**
- 7) International Organisation specified under diplomatic immunities law or a similar law.**

2.5 Disallowed Expenses

2.5.1 Employment Income

No deduction shall be made in calculating a person's income from employment.

2.5.2 Business income, Investment income, Other income

In calculating a person's income, the following deductions shall not be made:

- (a) Domestic or Private Expenses .
- (b) Tax payable under Inland Revenue Act.
- (c) Interest, Penalties and fines for any breach of law.
- (d) Expenditure incurred to derive exempt income .
- (e) Expenditure incurred to derive final withholding payments.
- (f) Retirement contributions not taxed on employees .
- (g) Payments to pension or Provident Funds not approved by CGIR.
- (h) Dividends of a Company.

2.5 Disallowed Expenses (Cont.)

- (j) Outlays or expenses for entertainment.**
- (k) Sums transferred to reserve or provision for expenditure or losses not yet incurred
Eg: Gratuity.**
- (l) Expenses incurred on lotteries, betting or gambling (other than expenses incurred on conducting a business of lotteries, betting or gambling).**
- (m) Taxes or other levies specified by CGIR.**
- (n) Expenses on which WHT is applicable but not paid to CGIR (Section 10 (2)).**
- (o) Expenses not expressly permitted by the Act (Section 10(3)).**
- (p) Repairs and improvements - above 5% of the WDV of Buildings.
- above 20% of the WDV for other Assets.**
- (o) Capital Expenditure (includes expenses that secures a benefit lasting longer than 12 months).**
- (p) Finance cost not deductible under Section 18 – Thin Capitalisation rule**

2.6 Allowable Expenses

<p>Main deduction rule</p>	<p>Expenses to the extent they are incurred during the year in the production of income from business or investment are allowed. Capital expenditure (including expenses that secures a benefit lasting longer than 12 months) is disallowed.</p>
<p>Interest expenses</p>	<p>Interest is deductible, if money borrowed under a debt obligation is used during the year in the production of income or was used to acquire an asset that is used during the year in the production of income. In other cases, interest is allowed if debt obligation is incurred in the production of income.</p>
<p>Cost of Goods Sold</p>	<p>Allowed, but limited to business.</p>
<p>Repairs and improvements</p>	<p>Repairs and improvements are deductible including capital nature expenses subject to 5% of the written down value (WDV) of Buildings and 20% of the WDV of Other Assets. Any unclaimed amount shall be added to the depreciation base of the asset.</p>

2.6 Allowable Expenses (Cont.)

<p>Agriculture Start-up expenses</p>	<p>Following expenses including capital expenses are allowed.</p> <ul style="list-style-type: none"> • Opening up land for cultivation or for animal husbandry • Cultivating above land with plants • Purchase of live stock or poultry to be reared on above land. • Maintaining lands or ponds • Clearing or preparation of any inland waters for rearing of fish • Purchase of fish to be reared in such tank, pond or inland waters.
<p>Research & Development</p>	<p>“Research” and development expenses” means expenses incurred by the person in –</p> <ol style="list-style-type: none"> a) carrying on any scientific, industrial, agricultural or any other research for the upgrading of the person’s business through any institution in Sri Lanka (or for any innovation or research relating to high value agricultural products, by the person or through any research institution in Sri Lanka); or b) the process of developing the person’s business and improving business products or process which shall be beneficial to Sri Lanka. <p>but shall exclude expenses incurred that are otherwise included in the cost of an asset under this Act.</p>

2.6 Allowable Expenses (Cont.)

<p>Depreciation Allowances</p>	<p>To be claimed as per 2nd schedule or 4th schedule of the Act.</p> <ul style="list-style-type: none"> • Asset should be owned and used in the production of income and should be available at the end of the year of assessment. • Depreciation allowances cannot be deferred. • Depreciation allowances can be claimed only against business income.
<p>Research & Development</p>	<p>“Research” and development expenses” means expenses incurred by the person in –</p> <ol style="list-style-type: none"> a) carrying on any scientific, industrial, agricultural or any other research for the upgrading of the person’s business through any institution in Sri Lanka (or for any innovation or research relating to high value agricultural products, by the person or through any research institution in Sri Lanka); or b) the process of developing the person’s business and improving business products or process which shall be beneficial to Sri Lanka. <p>but shall exclude expenses incurred that are otherwise included in the cost of an asset under this Act.</p>

2.6 Allowable Expenses (Cont)

<p>Balancing Allowances</p>	<p>Balancing allowance = Tax written down value - Disposal proceeds Balancing allowance can be claimed as an expense against business income.</p>
<p>Losses on realization of business assets and liabilities</p>	<p>Losses on realization of assets and liabilities used in the production of income from the business can be deducted.</p>
<p>Financial Cost</p>	<p>Applicable to financial instruments of any entity, other than a Commercial Bank or licensed specialised bank. Any unclaimed amount can be carried forward to the following six years of assessment. Allowable Loan limit - Manufacturing entities (Share Capital + Reserves excluding asset revaluation reserves) x 3 - Other than Manufacturing entities (Share Capital + Reserves excluding asset revaluation reserves) x 4 Loans from both related parties and third parties are considered in computing the allowable loan limit.</p>

2.6 Allowable Expenses (Cont.)

<p>Business Investment Losses</p>	<p>or</p> <ul style="list-style-type: none"> • Business losses can be deducted in full. Balance, if any, can be carried forward for six years. • The loss can be set off against business profits or investment income subject to certain restrictions. • Losses relating to reduced rates can be deducted from - <ul style="list-style-type: none"> - Profits taxable at such rate. - Profits taxable at lower rate and - Profits from exempt activities • Losses pertaining to exempt activities can only be deducted from exempt profits. • Business losses can be deducted from business profits or investment income. However investment losses can be deducted only from investment income. • Losses from long term contracts can be carried back.
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3. QUALIFYING PAYMENTS AND RELIEFS

3.1 Qualifying Payments

(a) Donations made to charitable institution

A donation in money to an approved charitable institution established for the provision of institutionalized care for sick and needy.

Limitation **Individuals - 1/3 of taxable income or Rs.75,000 whichever is less**
 Entity - 1/5 of taxable income or Rs.500,000 whichever is less

(b) Donations made to the government and government's funds

A donation in money or otherwise to:

- (a) Government of Sri Lanka**
- (b) Local Authority**
- (c) Higher Education Institute established under the Universities Act**
- (d) Buddhist and Pali University or Higher Education Institute established under the Buddhist and Pali University Act**
- (e) A fund established by the Government of Sri Lanka**
- (f) A fund established by local authority or a Provincial Council and approved by the Minister**
- (g) Sevana Fund, Api Wenuwen Api Fund and National Kidney Fund**

Limitation - The full amount of donation can be claimed

3.1 Qualifying Payments (Cont.)

(c) Profits remitted to the President's Fund

Profits remitted to the President's Fund by a Public Corporation as required by law.

Limitation - The full amount can be claimed

3.2 Reliefs

Relief	Availability	Limitation
Personal relief of Rs.500,000	Resident individuals Citizens who are not residents	Not deductible against gains from realization of investment assets.
Employment income relief	Resident and non resident employees	Maximum relief of Rs.700,000 subject to individual's income from employment.
25% allowance for rent income from investment asset	Individual with rent income	Actual expenditure for repair, maintenance and depreciation cannot be claimed
Interest Income relief for senior citizens	Individual senior citizen	Maximum relief of Rs.1,500,000 subject to individual senior citizen's income from interest
Relief from foreign currency earnings from any service rendered in or outside Sri Lanka to any person to be utilized outside Sri Lanka	Resident individual or partner of a partnership	Maximum relief of Rs. 15,000,000 subject to individual's foreign income.

4. TAX RATES

4.1 Tax Rates Applicable for Individuals

- (a) Gains from the realization of investment assets - 10%
- (b) Income from a business consisting of betting and gaming, liquor or tobacco - 40%
- (c) Terminal benefits
- i. Where the period of contribution is 20 years or less

On the first Rs. 2,000,000	Nil
On the next Rs. 1,000,000	5%
On the balance	10%
 - ii. Where the period of contribution is more than 20 years

On the first Rs. 5,000,000	Nil
On the next Rs. 1,000,000	5%
On the balance	10%
- (d) Remainder of taxable income
- | | |
|--------------------------|-----|
| On the first Rs. 600,000 | 4% |
| On the next Rs. 600,000 | 8% |
| On the next Rs. 600,000 | 12% |
| On the next Rs. 600,000 | 16% |
| On the next Rs. 600,000 | 20% |
| On the balance | 24% |

4.2 Tax Rates Applicable for Companies

	Tax Rate
(a) Small and Medium Enterprises (Defined)	14%
(b) A company predominantly conducting a business of exporting goods and services (Defined)	14%
(c) A company predominantly conducting an agricultural business (Defined)	14%
(d) A company predominantly providing educational services	14%
(d) A company predominantly engaged in an undertaking for the promotion of tourism (Defined)	14%
(e) A company predominantly providing information technology services (Defined)	14%
(f) A company with income from a business consisting of betting and gaming, liquor and tobacco	40%
(g) Gains from the realisation of investment assets	10%
(h) Others	28%
(i) Tax on remittances by a non-resident person	14%

4.3 Tax Rates Applicable for Other Entities

	Gain from realization of investment asset	Remainder of taxable income
(a) Partnerships	10%	NIL
(b) Trusts	10%	24%
(c) Unit Trusts / Mutual Funds	10%	28%
(d) Charitable Institutions	10%	14%
(d) Non-governmental Organizations (NGOs)	10%	28%
(e) Employees Trust Fund, Approved Provident or Pension Funds and Approved Termination Funds	-	14%

Partnerships are not liable to income tax on remainder of partnerships taxable income. However, when remainder of partnership's taxable income is apportioned to individual partners, each partners share is liable to withholding tax at 8%.

5. WITHHOLDING TAX

5.1 Withholding by Employers

	Tax Rate
(a) In the case of a resident withholdee	As per PAYE Tax Tables
(b) In the case of a non-resident withholdee	As per PAYE Tax Tables

5.2 Withholding on Investment Returns

Nature of Payment	Tax Rate
(a) Interest paid to a resident individual other than a senior citizen in relation to a bank deposit.	5%
(b) Interest paid to a Senior Citizen - Upto Rs. 1.5 million - Amount in excess of Rs. 1.5 million	Exempt 5%
(c) Rent paid to a resident person	10%
(d) Other Interest, Rent, Dividend paid by a resident Company, Discout, Charges, Natural Resource Payments, Royalty, Premium, Retirement payment, Winnings from lottery, reward, betting or gambling	14%
(e) Allocation of Partner's share of partnership income	8%
(f) Sale of gems via auction conducted by National Gem & Jewellery Authority	2.5%

5.2 Withholding On Investment Returns (Cont.)

The above payments are not liable to WHT under the following situations:

- (a) Payments subject to withholding by employers (ie. PAYE)**
- (b) Payments made by individuals, unless made in conducting a business.**
- (c) Interest paid to a financial institution on the ordinary loans and advances provided by it.**
- (d) Payments or allocations that are exempt amounts under Section 9.**

5.3 Withholding on Service Fees And Contract Payments

(a) Payment of a service fee with a source in Sri Lanka to a resident individual who is not an employee of the payer.

Nature of Payment	Tax Rate
(a) For teaching, lecturing, examining, invigilating or supervising an examination.	5% on amounts exceeding Rs.50,000/- per month
(b) As a commission or brokerage to a resident insurance, sales or canvassing agent.	5% on amounts exceeding Rs.50,000/- per month
(c) As an endorsement fee	5% on amounts exceeding Rs.50,000/- per month
(d) In relation to the supply of any article on a contract basis through tender or quotation or	5% on amounts exceeding Rs.50,000/- per month
(e) For such other matters as may be prescribed by regulation.	5% on amounts exceeding Rs.50,000/- per month

5.3 Withholding on Service Fees And Contract Payments (Cont.)

(b) Payments made to non-resident persons.

Nature of Payment	Tax Rate
(a) Payment of a service fee or an insurance premium with a source in Sri Lanka	14%
(b) Payments for the following. i. Land, sea or air transportation ii. Telecommunication services	Regulations may prescribe

(c) The above payments are not liable to WHT under the following situations:

- (i) Payments subject to withholding by employers (ie. PAYE).
- (ii) Payments made by individuals, unless made in conducting a business.
- (iii) Payments that are exempt amounts.
- (iv) Recipient submits a certificate confirming that payments are chargeable with ESC.

5.4 Obligation of Withholding Agent And Withholdee

- (a) Withholding agent should pay to the CGIR the tax withheld within 15 days after end of each calendar month.**
- (a) Withholding agent requires to file an annual statement within 30 days after 31st March giving following information.**
 - i. Description of payments made that are subject to withholding**
 - ii. Name, address and TIN of the withholdee.**
 - iii. Tax withheld from each payment.**
 - iv. Any other information that the CGIR may specify**
- (c) Withholding agent should pay the tax to be withheld even if he fails to do so and is entitled to recover such amount from the withholdee.**
- (d) If withholding agent fails to withhold tax, withholdee is liable to pay such tax within 15 days after end of calendar month in which the payment is received.**

6. INVESTMENT INCENTIVES (SECOND SCHEDULE)

6.1 Enhanced Capital Allowances

A person who invests in Sri Lanka (other than the expansion of an existing business) during a year of assessment shall be granted enhanced capital allowances as shown below, in addition to the general capital allowances.

Amount invested in depreciable assets other than IA (USD)	Location / Purpose	Rate of Allowance
3 - 100 Mn	Other than Northern Province	100%
Exceeds 100 Mn	Other than Northern Province	150%
Exceeds 3 Mn	Northern Province	200%
Exceeds 250 Mn	Expenses incurred in the assets of a “state owned company” in any part of Sri Lanka.	150%

6.2 Extended Period for Deducting Unrelieved Losses

- (a) Unrelieved Loss incurred due to enhanced depreciation allowance claimed during a year of assessment can be carried forward upto 10 years.
- (b) Where a person has incurred more than USD 1,000 million on depreciable assets (other than intangible assets) or relates to investment in assets of a state owned company, loss can be carried forward upto 25 years.

6.3 Exemption from Withholding Tax on Dividends And Employment Income

Where a Company has incurred expenses exceeding USD 1,000 Mn on depreciable assets (other than on intangible assets) or entitled to an enhanced depreciation allowance on investment in assets of a state owned enterprise;

- (a) Dividend paid to a non-resident shareholder out of profits sheltered by enhanced depreciation allowance is exempt from withholding tax.
- (a) Employment income upto 20 expatriate employees of the Company is exempt from withholding tax.

7. TEMPORARY CONCESSIONS (SIXTH SCHEDULE)

The following concessions will expire after 01st April, 2018.

7.1 Enhanced Capital Allowances

Expenses incurred upto USD 3 million during a Year of Assessment on the following depreciable assets will be entitled to enhanced capital allowances in addition to general depreciation allowances. This concession is not available for expansion of existing business.

- i) Computers and data handling equipment together with peripheral devices.
- ii) Buildings, Structures and similar works of a permanent nature.
- iii) Plant or machinery used to improve business processes or productivity and fixed to the business premises.

Location	Rate of Allowance
Northern Province	200%
Other than Northern Province	100%

7. TEMPORARY CONCESSIONS (SIXTH SCHEDULE)

7.2 Concessionary Tax Rates

Nature of Business	Tax Rate
Portion of the gains and profits that is deemed as income of an insurer from life insurance	14%
Relocation of headquarters or regional head offices in international network after 01.10.2017 as specified by CGIR by notice published in the gazette.	NIL
Any person who has entered into a standardized power purchase agreement on or before 10th November 2016 with CEB to provide electricity generated using renewable resources.	14%

7.3 Enhanced Deduction of Expenses

- (a) Double deduction for research and development expenditure.
- (b) A business predominantly providing information technology services and employs at least 50 persons during the whole of the year and reports those employees as an withholding agent , additional deduction of 35% of salaries.

8. TAX PAYMENTS AND RETURN FILING

8.1 Tax Payable in Installments

- (a) A person shall pay tax by quarterly installments if he derives or expects to derive assessable income during a year of assessment –
- (i) from a business or investment; or
 - (ii) from an employment where the employer is not required to withhold PAYE.

(b) Due dates of tax payments

Installment	Year of Assessment (Y/A)	
	01 st April – 31 st March	Any other Y/A other than 01 st April – 31 st March (e.g. 01 st Jan – 31 st Dec)
1 st	On or before 15 th Aug	On or before 15 th April
2 nd	On or before 15 th Nov	On or before 15 th July
3 rd	On or before 15 th Feb	On or before 15 th Oct
4 th	On or before 15 th May	On or before 15 th Jan
Final	On or before 30 th Sep	On or before 30 th June

8.1 Tax Payable In Installments (Cont.)

- (c) An installment payer shall file with CGIR an estimate of tax payable for the year by the date for payment of first tax installment. The estimate shall remain in force for the whole year unless a revised estimate is filed with CGIR. The revised estimate should be used in computation of installments after filing of same.
- (d) Alternatively, CGIR can make an estimate of tax payable by a person based on the tax payable for the previous year of assessment with an uplift and inform the tax payer by a written notice.
- (e) Quarterly tax installment is computed as follows:
(A - C) / B
A - Estimated tax payable for the year under above (c) or (d).
B - Number of installments remaining for the year of assessment including current installment.
C - Previous installments paid and withholding tax paid on income liable to tax prior to the date of payment of the installment either by withholding agent or withholdee.
- (f) For the first year of assessment commencing on or after 1 April 2017, the current estimated tax payable for that year of assessment is equal to the amount of tax that was payable in the previous year of assessment, increased by an uplift of five percent.

8.2 Return Filing

- (a) Every person who has a taxable income for the year, shall file with the CGIR a return of income not later than 8 months after the end of year of assessment.

Year of Assessment (Y/A)	Due Date
01 st April – 31 st March	On or before 30 th November
Any other Y/A (e.g. 01 st Jan – 31 st Dec)	On or before 31 st August

- (b) A return of income is not required in the following situations:

(i) A resident individual

- who has no tax payable as he has no taxable income for the year; or
- with only employment income which is subject to PAYE tax.

(ii) A non resident person who has no tax payable as there is no taxable income for the year.

- (c) Every person with taxable income consisting of a gain from the realisation of an investment asset shall file with the CGIR, a capital gains tax return not later than one month after that realisation.