

(3) This section shall not apply to a partnership or company that conducts the same business after a change as it conducted before the change for a period of two years after the change.

CHAPTER VI

SPECIAL INDUSTRIES

Division I: Petroleum Operations

65. (1) Any individual or entity who or which has entered into an agreement as a contractor or sub-contractor under the Petroleum Resources Act, No. 26 of 2003 shall be deemed to be resident in Sri Lanka over the term of such contract or sub contract, as the case may be, for the purposes of this Act.

Petroleum operations.

(2) The turnover from exports and local sales of petroleum exploited under any Petroleum Resources Agreement referred to in subsection (1), shall be determined on the basis of accepted commercial practices and be subject to any specific provisions in the Petroleum Resources Agreements, entered into under the Petroleum Resources Act, No. 26 of 2003.

(3) The income, gains and profits from the business of petroleum exploitation under any Petroleum Resources Agreement referred to in subsection (1), shall be ascertained after allowing the following deductions in addition to other allowable deductions under the provisions of this Act, and shall notwithstanding anything to the contrary in any other provision of this Act, be chargeable with income tax at the appropriate rate set out in the First Schedule to this Act, provided that the same item of expenditure shall not be deducted more than once:-

- (a) payments made to service sub-contractors for conducting petroleum operations;

- (b) one hundred percent of the cost of acquisition of any plant, machinery or equipment used for the recovery of petroleum resources, instead of the capital allowances under section 16. Any proceeds realised on the sale of such assets shall be considered as a receipt from such business;
- (c) interest expenses;
- (d) royalty paid on petroleum resources recovered under any Petroleum Resources Agreement;
- (e) all expenses on the development and production of petroleum, including capital expenses, where a deduction under paragraph (b) above has not been granted;
- (f) in the year of first commercial production, all costs incurred by any contractor in the exploration for unsuccessful wells in exploration blocks under any Petroleum Resources Agreement, up to and including such year of first commercial production;
- (g) any costs incurred by any contractor in the exploration for unsuccessful wells in exploration blocks under any Petroleum Resources Agreement in any year of assessment, after the first commercial production.

Division II: Financial Institutions and Insurance Entities

Banking
business.

66. (1) For the purposes of this Act, a person's activities in conducting a banking business shall be treated as a business separate from any other activity of the person and the person's income or loss from the business for a year of assessment shall be calculated separately.

(2) Where a person conducting a banking business makes specific provision for a debt claim in accordance with the

relevant directives made by the Central Bank of Sri Lanka, the Commissioner-General may specify the extent to which that provision shall be deductible, but a person shall not deduct such provision unless such directives are complied with.

(3) In this section, “banking business” means the banking business of a financial institution.

67. (1) In the case of a person engaged in the business of life insurance, whether mutual or proprietary, the gains and profits from the business on which tax is payable shall be ascertained by taking the aggregate of—

Insurance
business.

- (a) the surplus distributed to share holders from the life insurance policy holders fund as certified by the Appointed Actuary functioning within the Regulation of the Insurance Industry Act, No. 43 of 2000; and
- (b) the investment income of the share holder fund less any expenses incurred in the production of such income,

subject to the deductions claimable under section 19 in arriving at the income from the business.

(2) For the purpose of subsection (1), the surplus distributed to a life insurance policy holder who shares the profits of a person engaged in the business of life insurance in a given year, as provided in the Regulation of Insurance Industry Act, No. 43 of 2000, shall be deemed as gains and profits of that person from the business and subject to tax accordingly.

(3) The profits of a non-resident company whether mutual or proprietary, from the business of insurance (other than life insurance) shall be ascertained by taking the gross

premiums from insurance business in Sri Lanka (less any premiums returned to the insured and premiums paid on reinsurance) and deducting therefrom a reserve from unexpired risks at the percentage adopted by the company in relation to its operations as a whole for such risks at the end of the period for which the profits shall be ascertained, and adding thereto a reserve similarly calculated for unexpired risks outstanding at the commencement of such period, and from the net amount so arrived at, deducting the actual losses (less the amount recovered in respect thereof under reinsurance), the agency expenses in Sri Lanka and a fair proportion of the expenses of the head office of the company, due account being taken in each case by set-off against such expenses, of any income or profits other than premiums.

(4) Where the Commissioner-General is satisfied that by reason of the limited extent of the business transacted in Sri Lanka by a non-resident insurance company, it would be unreasonable to require the company to furnish the particulars necessary for the application of subsections (1) and (2), the Commissioner-General may notwithstanding the provisions of such subsections, permit the profits of the company to be ascertained by reference to such proportion of the total profits and income of the company as is equal to the proportion which its premiums from insurance business in Sri Lanka bears to its total premiums, or on any other basis considered equitable in all the circumstances of the case.

Division III: Non-Governmental Organizations and Charitable Institutions

Non-Governmental organizations and charitable institutions.

68. (1) A non-government organization shall pay additional tax of three percent on amounts received in each year of assessment by way of grant, donation or contribution or in any other manner at the rate set out in the First Schedule.

(2) Where the Commissioner-General is satisfied that any non-governmental organization is engaged, in any year of assessment, in –

- (a) rehabilitation and the provision of infrastructure facilities and livelihood support to displaced persons in any area identified by the Government for the purposes of such rehabilitation and provision; or
- (b) any other activity approved by the Minister as being of humanitarian in nature, taking into consideration the nature and gravity of any disaster and the magnitude of relief required to be provided consequently,

the Commissioner-General may reduce or remove the tax payable by such non-governmental organization for that year of assessment if it appears that such reduction is just and equitable in all the circumstance of the case.

(3) Where any charitable institution provides in any year of assessment institutionalized care for the sick or the needy and where the Commissioner-General is satisfied that the cost of provision of such care is borne by such charitable institution, the Commissioner-General may, subject to specified conditions, grant a tax credit against the tax payable on the charitable institution's taxable income for the year of assessment, provided it appears to the Commissioner-General that such reduction or remission is just and equitable in all the circumstances of the case.

CHAPTER VII

INTERNATIONAL

Division I: Residence and Sources

69. (1) An individual shall be a resident in Sri Lanka for a year of assessment if the individual –

Resident persons.

- (a) resides in Sri Lanka;