

Guideline For Employers On Deducting Advance Personal Income Tax (Apit) From Employment Income

Year of Assessment (Y/A)

This guideline provides necessary instructions to employers to deduct Advance Personal Income Tax (hereinafter referred to as "APIT") from the employment income as per the provisions of the Inland Revenue Act, No. 24 of 2017 (IR Act), as amended by the Inland Revenue (Amendment) Act, No. 10 of 2021, Inland Revenue (Amendment) Act, No. 45 of 2022, Inland Revenue (Amendment) Act, No.02 of 2025 and the Extra ordinary Gazette Notification No. 2312/16 dated 28.12.2022 (as amended).

This guideline is effective for the Y/A 2025/2026 and onwards.

Deduction by Employers

Every employer is required to deduct APIT with effect from January 01, 2023, on any payment which has been specified as gains and profits from employment under section 5 of the IR Act made to each employee who is liable to pay income tax, at the time of such remuneration is paid or credited.

The obligation of an employer to withhold tax from employment income shall not be reduced or extinguished, when the employer has a right or is under an obligation to deduct and withhold any other amount from the payment related to the employment or any other law provides that an employee's income from employment shall not be reduced or subject to attachment.

1. Employee and Employment

An employee means an individual engaged in "employment".

Employment means, a position of an individual in the employment of another person; a position of an individual as manager of an entity; a position of an individual entitling the individual to a fixed or ascertainable remuneration in respect of services performed; a public office held by an individual; a position of an individual to whom any payment is made or due by or from an employer or who receives any other benefit as an employee or in a similar capacity: a position as a corporation or company director; and includes a past, present or prospective employment.

2. Gains and Profits from Employment liable to tax

Tax liability arises on total remuneration received or derived by an employee in any form as described below in cash or non-cash, for services performed or value of any benefit arises from prospective employment.

- Salary, wages, leave pay, overtime pay, fees, pensions, commissions, gratuities, bonuses, and other similar payments;
- Personal allowance, including any cost of living, subsistence, rent, entertainment or travel allowance;
- Payments providing discharge or reimbursement of expenses incurred by the employee or an associate of the employee;
- Payments for an individual's agreement to conditions of employment;
- Payments for redundancy or loss or termination of employment;
- Retirement contribution made to a retirement fund on behalf of the employee and retirement payment received in respect of the employment;
- Payments or transfers to another person for the benefit of the employee or an associate person of the employee;
- The fair market value of benefits received or derived by virtue of the employment by the employee or an associate person of the employee;
- Other payments, including gifts, received in respect of the employment;
- 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, excluding the employee's contribution for such shares;

3. Excluded Gains and profits from employment

- Exempt amounts and final withholding payments;
- A discharge or reimbursement of expenses incurred by the individual on behalf of the employer:
- A discharge or reimbursement of an individual's dental, medical or health insurance expenses where the benefit is available to all full-time employees in the same grade of the service, on equal terms;
- 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;

- The value of a right or option to acquire shares at the time such shares are granted to an employee under an employee share scheme;
- Contributions made by an employer to an employee's account with a pension, provident, gratuity or savings fund or savings society approved by the Commissioner-General;
- Any retirement payments received at the time of the retirement from employment, subject to the condition that the respective retirement contributions have already been considered for income tax purposes and the employee has paid tax on such contributions in a previous year of assessment.

4. Exempt Gains and Profits from Employment

- Capital sum paid as compensation or gratuity in lieu of personal injuries or death;
- Pension received from the Sri Lankan Government or from a Department of the Government;
- Amounts paid on retirement from any Provident Fund approved by the Commissioner General of Inland Revenue or a regulated provident fund.
- Amounts paid on retirement from any Pension Fund or the Employees' Trust Fund, representing investment income earned for any period commencing on or after 1 April 1987;
- Income derived by an individual entitled to privileges under the Diplomatic Immunities Law and other specified conventions;
- Benefits derived by a Government employee, from a road vehicle permit granted to such employee.

5. Reliefs for Employment Income

In arriving at the taxable income from employment income, Rs. 1,800,000 (Rs. 1.8 million) relief is available for resident individuals and non-resident individuals who are citizens for the Y/A 2025/2026 and onwards.

Accordingly, any resident (citizen or non-citizen) individual or non-resident but citizen individual who receives remuneration in excess of Rs. 1,800,000 (Rs.1.8 million) per year of assessment or Rs. 150,000 per month is liable to APIT from employment income.

For non- resident and non-citizen employees, relief of Rs. 1,800,000 (Rs.1.8 million) per year of assessment is not available.

6. Tax Tables for Tax Deductions from Employment Income

New Tax tables are applicable for the Y/A 2025/2026 (effective from April 01, 2025). Deduction of APIT from remuneration should be made by applying the appropriate tax table.

7. How to apply Tax Tables

An employer who makes a payment during a year of assessment to an employee, in respect of that employee's employment, the employer shall compulsorily withhold an amount from such payment in accordance with-

(a) Where the payment constitutes regular profits from the employment, of all resident and non- resident but citizen employees who have furnished primary declarations to their employers and resident and non-resident but citizen employees who have one employment, Tax Table 01 should be applied.

(b) Where the payment constitutes a lump-sum payment, of all resident and non-resident but citizen employees, who have furnished primary declarations to their employers and resident and non-resident but citizen employees who have one employment, Tax Table 02 should be applied.

(c) Where the payment constitutes a once-and-for-all payment (terminal benefits) of all employees, Tax Table 03 should be applied.

(d) Where any payment received by the non-resident employees other than citizens in Sri Lanka, Tax Table 04 should be applied.

(e) Where the monthly regular profits of an employee from a primary employment is less than Rs.150,000 but the cumulative profits from the primary employment up to any month in the year of assessment exceeds Rs. 1,800,000 (Rs.1.8 million) due to payment of higher remuneration in certain months, in such instances, Tax Table 05 should be applied.

(f) Where the payment constitutes a payment or reimbursement of the employee's tax liability on his income from employment by the employer, Tax Table 06 should be applied.

(g) Where the payment constitutes of the remuneration of any employee, who has not furnished a Primary Employment Declaration, or who has more than one employment, Tax Table 07 should be applied.

(h) Where the employee receives employment income from a foreign employer who has failed to deduct the APIT, the employee is responsible for paying the due tax.

In such cases, Tax Table 08 should be applied.

If an employer encounters a practical issue that is not addressed in the tables above, they can submit a detailed description of the issue via email to tpl@ird.gov.lk, where they will receive written instructions.

Tax Tables are available in the Inland Revenue Department Web Portal www.ird.gov.lk

8. Primary Employment

The primary employment of an employee for a year of assessment is the employment with respect to which the employee has provided an employer with a declaration for that year.

An employee shall furnish an employer, with a declaration nominating the employment as the employee's primary employment, where the monthly regular profits from such primary employment exceeds or deemed to be exceed Rs. 150,000 per month or Rs. 1,800,000 per year of assessment except any employee who is having one employment.

A declaration must be signed and dated by the employee and the employer, and may relate to one or more years of assessment.

An employee must not have more than one primary employment at any one time.

An employee may withdraw such declaration only at the end of a year of assessment, if the primary employment is not ceased.

Note: - Please use the specified form of Primary Employment Declaration in the Inland Revenue Department Web Portal www.ird.gov.lk

9. Secondary Employment

With respect to an employee, Secondary Employment means any employment that is not the primary employment of the employee.

10. Remittance of Tax deducted

- i. Tax deducted from employment income from every employee during a particular month should be remitted to the Commissioner General of Inland Revenue on or before the 15th day of the month immediately succeeding that month.
- ii. Payments should be made to any branch of Bank of Ceylon, using specified remittance forms issued by the Inland Revenue Department.
- iii. Employers are required to read the instructions on the overleaf of the remittance form.
- iv. Employers should keep the third copy of the remittance form after making the payments.

11. Return Submission by Employees

The deducted tax from employment income shall be considered as a final withholding payment for a non-resident employee who is not a citizen of Sri Lanka. Other employees are required to file Return of Income for the Y/A 2025/2026 and onwards in following circumstances.

- a. Where an employee has employment income as well as other sources of income, such employee is required to file a Return of Income individually by getting registration in the IRD after obtaining a Taxpayer Identification Number (TIN).

Tax registration could be done via online also.

b. Where Commissioner General of Inland Revenue has served a notice in writing on an employee requiring filing a return of income, such employee is required to file a Return of Income, even if his source of income is exclusively from employment.

12. Further Instructions and Information regarding Deduction of Tax from Employment Income

These instructions are meant to guide the employers to deduct amount of tax from employees. However, if there is any inconsistency between the provisions of the Inland Revenue Act and these instructions, the provisions of the Act shall be applied.

Further details, tax tables and the electronic version of the relevant forms and schedules, relevant Gazette Notifications can be downloaded from Inland Revenue Department Web Portal www.ird.gov.lk.