



**PARLIAMENT OF THE DEMOCRATIC
SOCIALIST REPUBLIC OF
SRI LANKA**

**INLAND REVENUE (AMENDMENT)
ACT, No. 10 OF 2007**

[Certified on 30th March, 2007]

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Inland Revenue (Amendment) Act, No. 10 of 2007

[Certified on 30th March 2007]

L.D.—O. 04/2007.

AN ACT TO AMEND THE INLAND REVENUE ACT, NO. 10 OF 2006

Be it enacted by the Parliament of the Democratic Socialist Republic of Sri Lanka, as follows :—

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| <p>1. This Act may be cited as the Inland Revenue (Amendment) Act, No. 10 of 2007.</p> <p>2. Section 4 of the Inland Revenue Act, No. 10 of 2006 (hereinafter referred to as the “principal enactment”) is hereby amended in subsection (1) of that section, as follows :—</p> <p>(1) in paragraph (d) of that subsection by the substitution for all the words “(ii) the gross rent paid for such place of residence, whichever is higher,” to the end of that paragraph, of the following—</p> <p>“(ii) the gross rent paid for such place of residence, whichever is higher :</p> <p>Provided that for any year of assessment, any excess of the rental value—</p> <p>(A) over one hundred and twenty thousand rupees, where the aggregate of the profits referred to in paragraph (a) does not exceed one million and eight hundred thousand rupees ; and</p> <p>(B) over one hundred and eighty thousand rupees, where the aggregate of the profits referred to in paragraph (a) exceeds one million and eight hundred thousand rupees,</p> <p>shall be disregarded ;”; and</p> | <p>Short title.</p> <p>Amendment of section 4 of Act, No. 10 of 2006.</p> |
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- (2) in paragraph (e) of that subsection by the substitution for the words “at the time of its disposal, of any share”, of the words and figures “at the time of its disposal, where such disposal takes place prior to April 1, 2007, of any share”.

Amendment of section 8 of the principal enactment.

3. Section 8 of the principal enactment is hereby amended in subsection (1) of that section, as follows :-

- (1) in paragraph (n) of that subsection, by the substitution for the words, “public corporation or at any subsequent time,”, of the words and figures “public corporation other than any public corporation referred to in sub-paragraph (ii) of paragraph (b), or at any subsequent time,”;
- (2) in sub-paragraph (ii) of paragraph (o) of that subsection, by the substitution for the words “the Commissioner of Labour”, of the words “the Commissioner of Labour;”;
- (3) by the addition immediately after paragraph (o) of that subsection, of the following new paragraphs :-
- “(p) the value of any benefit accruing to an employee of any employer from the allotment or the grant, as the case may be, to such employee or to any nominee of such employee by or on behalf of such employer, of any share or any option to buy any share in any company, in accordance with a scheme which in the opinion of the Commissioner-General is uniformly applicable to all the employees of such employer.

In this paragraph, the “value” in relation to any benefit accruing from the allotment of any share or the option to buy any share, means the excess, if any, of the market value of such share at the time of its allotment or at the time of the sale of the option, as the case may be, over the price charged for such allotment or grant, as the case may be ; and

- (g) the emoluments earned in any year of assessment commencing on or after April 1, 2007, by any resident individual from employment on a ship which is—
 - (i) owned or chartered by a company registered as an off-shore company under Part XI of the Companies Act, No. 7 of 2007 ; or
 - (ii) deemed to be a Sri Lanka ship by virtue of a determination made under paragraph (c) of section 30 of the Merchant Shipping Act, No. 52 of 1971.”.

4. Section 9 of the principal enactment is hereby amended as follows :—

Amendment of section 9 of the principal enactment.

- (1) in paragraph (j) of that section, by the substitution for the words “such charitable institution.”, of the words “such charitable institution ;”; and
- (2) by the addition immediately after paragraph (j) of that section, of the following new paragraph :—
 - “(k) the interest accruing to any person from any money deposited in any Treasury Bond Investment External Rupee Account.”.

5. Section 10 of the principal enactment is hereby amended in subsection (1) of that section, by the substitution for paragraph (b) of that subsection, of the following paragraph :—

Amendment of section 10 of the principal enactment.

- “(b) any dividend paid to a unit holder by any unit trust or mutual fund;”.

6. Section 13 of the principal enactment is hereby amended as follows :—

Amendment of section 13 of the principal enactment.

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- (1) in sub-paragraph (i) of paragraph (b) of that section, by the substitution for the words “outside Sri Lanka (including services relating to any construction project); and”, of the words and figures “outside Sri Lanka (including, in relation to the year of assessment commencing on April 1, 2006, services relating to any construction project); and”;

- (2) by the insertion, immediately after paragraph (d) of that section, of the following new paragraph :—

“(dd) the profits and income for any year of assessment earned in foreign currency by any resident company, a resident individual or any partnership from services rendered outside Sri Lanka in that year of assessment, in carrying out any construction project in the course of any trade, business or vocation, if such profits and income (less any such amount expended by that company, individual or partnership outside Sri Lanka as is considered by the Commissioner-General to be reasonable expenses) are remitted to Sri Lanka through a bank;”;

- (3) in paragraph (t) of that section, by the substitution for the words “any profits and income derived by or accruing to any person or partnership other than any unit trust, mutual fund or any venture capital company, from the sale of any share”, of the words and figures—

“any profits and income—

- (i) for the year of assessment commencing on April 1, 2006, derived by or accruing to any person or partnership other than any unit trust, mutual fund or venture capital company ; and
- (ii) for any year of assessment commencing on or after April 1, 2007, derived by or accruing to any person or partnership,

from the sale of any share”; and

- (4) by the substitution, for paragraph (x) of that section of the following paragraph :—

“(x) an amount equal to the interest payable to any bank in Sri Lanka, in respect of any loan granted to a company, the full amount of which is invested :—

- (i) in any new undertaking referred to in subsection (2) of section 20, where such company is a company referred to in that section ; and
- (ii) in any relocated undertaking referred to in subsection (2) of section 21, where such company is a company referred to in that section;”.

7. Section 16 of the principal enactment is hereby amended in subsection (1) of that section, by the substitution for the words “The profits and income of any person”, of the words “The profits and income within the meaning of paragraph (a) of section 3, other than any profits and income from the disposal of any capital asset, of any person”.

Amendment of section 16 of the principal enactment.

8. Section 17 of the principal enactment is hereby amended as follows :-

Amendment of section 17 of the principal enactment.

- (1) in subsection (1) of that section, by the substitution for the words and figures “on or after April 1, 2002”, of the words and figures “on or after April 1, 2006”; and
- (2) in sub-paragraph (ii) of paragraph (a) of subsection (2) of that section, by the substitution for the words “incorporated with a minimum”, of the words and figures “incorporated on or after April 1, 2002, with a minimum”.

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Insertion of new sections 24A and 24B in the principal enactment.

9. The following new sections are hereby inserted immediately after section 24 of the principal enactment and shall have effect as section 24A and section 24B of that enactment :—

“Exemption from income tax of the profits and income from any new or upgraded cinema.

24A. (1) The profits and income within the meaning of paragraph (a) of section 3, (other than any profits and income from the disposal of any capital asset) from the exhibition on or after April 1, 2007 of any cinematographic film in any new cinema or any upgraded cinema referred to in subsection (3), shall be exempt from income tax for a period of :—

- (a) ten years, where the cinema is a new cinema ; or
- (b) five years, where the cinema is an upgraded cinema.

(2) The period of ten years or the period of five years, as the case may be, referred to in subsection (1) shall, in relation to any cinema, commence from the commencement of the year of assessment in which the exhibition of cinematographic films in such new cinema or upgraded cinema, as the case may be, commenced.

(3) For the purposes of this section :—

- (a) “new cinema” means a cinema—
 - (i) in which the exhibition of cinematographic films commences on or after April 1, 2007 ; and

- (ii) which is certified by the National Film Corporation of Sri Lanka established by the National Film Corporation of Sri Lanka Act, No. 47 of 1971 as being equipped with digital technology and Digital Theatre Systems and Dolby Sound Systems ; and

(b) “upgraded cinema” means a cinema—

- (i) in which the exhibition of cinematographic films had commenced prior to April 1, 2007 ;
- (ii) which was not equipped with digital technology and Digital Theatre Systems and Dolby Sound Systems prior to April 1, 2007 ; and

- (iii) which is certified by the National Film Corporation of Sri Lanka, established by the National Film Corporation of Sri Lanka Act, No. 47 of 1971 as being equipped on or after April 1, 2007, with digital technology and Digital Theatre Systems and Dolby Sound Systems.

Exemption
from income
tax of the
profits and
income from
the operation
of any re-
opened
abandoned
factory.

24B. (1) The profits and income within the meaning of paragraph (a) of section 3, (other than any profits from the disposal of any capital asset) of any person from the operation of any reopened abandoned factory referred to in subsection (2), shall be exempt from income tax for the period ending on March 31, 2011.

(2) For the purpose of subsection (1), “reopened abandoned factory” means a factory which :—

- (a) was engaged in the production or manufacture of any commodity or article but which had not been so engaged for an unbroken period of not less than three years, preceding November 16, 2006; and
- (b) commences to produce or manufacture such commodity or article or any other commodity or article in commercial quantities before April 1, 2008.”.

Amendment of
section 25 of the
principal
enactment.

10. Section 25 of the principal enactment is hereby amended in subsection (1) of that section as follows:—

- (1) by the substitution for paragraph (b) of the proviso to paragraph (a) of that subsection, of the following paragraph :—

“(b) where:—

- (i) any plant or machinery acquired is used in any business of providing health care, printing on paper, gem cutting and polishing, packaging of any commodity for commercial purposes, rice milling or such other business as may be prescribed by the Commissioner-General by Order published in the *Gezette*; or
- (ii) the asset consists of a ship acquired on or after April 1, 2007, being a ship which is owned or chartered by a company registered under Part XI of the Companies Act, No.7 of 2007 or is

deemed to be a Sri Lanka ship by virtue of a determination made under paragraph (c) of section 30 of the Merchant Shipping Act, No. 52 of 1971,

the rate shall be $33 \frac{1}{3}$ *per centum* of the cost of acquisition;”;

- (2) by the insertion immediately after paragraph (b) of the proviso to paragraph (a) of that subsection, of the following new paragraph :-

“(c) where any plant or machinery is acquired on or after April 1, 2007 and is used in any business of carrying out construction work, the rate shall be twenty five *per centum* of the cost of acquisition;”;

- (3) in paragraph (e) of that subsection, by the substitution for the words “a sum equal to the bad debts incurred”, of the words and figures “for the year of assessment commencing on April 1, 2006, a sum equal to the bad debts incurred”; and

- (4) by the insertion immediately after paragraph (e) of that subsection, of the following new paragraphs :-

“(ee) for any year of assessment commencing on or after April 1, 2007, a sum equal to the bad debts incurred by such person in any trade, business, profession, vocation or employment which have become bad debts during the period for which the profits are being ascertained :

Provided that, all sums recovered during such period on account of the amounts previously written off or allowed in respect of bad debts shall, for the purposes of this Act, be treated as receipts of that trade, business, profession, vocation or employment, for such period ;

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- (eee) for any year of assessment commencing on or after April 1, 2007, where such person is a bank or a financial institution, such sum as the Commissioner-General considers reasonable for doubtful debts, to the extent that they are estimated to have become bad during the period for which the profits are being ascertained, and notwithstanding that such debts were due and payable prior to the commencement of that period :

Provided that :—

- (i) such sum so considered reasonable shall not exceed one *per centum* of the aggregate debts outstanding at the end of that period ;
- (ii) where the doubtful debts estimated by such person as having become bad during the period for which the profits are being ascertained exceeds the sum deducted under this paragraph, the excess shall be deemed to be doubtful debts estimated by such person as having become bad during the period immediately succeeding the period hereinbefore referred to ; and
- (iii) where the estimated amount of any doubtful debt previously allowed as a deduction has been reduced or such amount or any part thereof has been paid during such period, the sum by which such amount has been so reduced or the sum so paid shall for the purposes of this Act, be treated as a receipt of such bank or financial institution for that period.

For the purposes of this paragraph, “financial institution” shall have the same meaning as given for that expression in section 147 ;

- (*eeee*) for any year of assessment commencing on or after April 1, 2007, where such person is not a bank or a financial institution, such sum as the Commissioner-General considers reasonable for doubtful debts, to the extent that they are estimated to have become bad during the period for which the profits are being ascertained :

Provided that, where the estimated amount of any doubtful debt previously allowed as a deduction has been reduced or such amount or any part thereof has been paid during such period, the sum by which such amount has been so reduced or the sum so paid shall, for the purposes of this Act, be treated as a receipt of such person for such period.

For the purposes of this paragraph “financial institution” shall have the same meaning as given for that expression in section 147;”;

- (5) in paragraph (*h*) of that subsection, by the omission of the provisos to that paragraph ;
- (6) in the proviso to paragraph (*k*) of that subsection :—
- (*a*) by the substitution in paragraph (*iv*) of that proviso, for all the words and figures from “the trade, business, profession or vocation carried on by such employer.”, to the end of that paragraph, of the words, “the trade, business, profession or vocation carried on by such employer ; and”;
- (*b*) by the substitution in paragraph (*v*) of that proviso, for the words, “place of employment or *vice versa*;” , of the following words :—

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“ place of employment or *vice versa*.

For the purpose of this proviso, “expenses incurred”, shall include any lease rental or other rental payment in respect of such vehicle or the cost of acquisition of such vehicle;”;
and

- (7) by the addition, immediately after paragraph (q) of that subsection, of the following paragraph :—

“(r) the accreditation expenses, where such person is a person carrying on any profession.”.

Amendment of
section 26 of the
principal
enactment.

11. Section 26 of the principal enactment is hereby amended as follows :—

- (1) in subsection (1) of that section—

(a) in paragraph (l) of that subsection :—

- (i) by the substitution in sub-paragraph (i) of that paragraph, for the words and figures “paragraph (c) of subsection (1) of section (97);”, of the words and figures “paragraph (c) of subsection (1) of section 97;”;
- (ii) by the substitution in sub-paragraph (iii) of that paragraph, for the words “tax or levy; and”, of the words “tax or levy; or”;
- (iii) by the substitution in sub-paragraph (iv) of that paragraph, for the words and figures “Economic Service Charge Act, No. 13 of 2006;”, of the words and figures “Economic Service Charge Act, No. 13 of 2006 ; or”;

- (iv) by the substitution in sub-paragraph (v) of that paragraph, for the words and figures “Value Added Tax Act, No. 14 of 2002;”, of the words and figures, “Value Added Tax Act, No. 14 of 2002 ; or”;
- (v) by the substitution in sub-paragraph (vi) of that paragraph, for the word and figure “item iv”, of the word and figure “item 4”;
- (b) in paragraph (x) of that subsection, by the substitution in paragraph (B) of sub-paragraph (iv) of that paragraph, for the words “any previous year.”, of the following words :—
 - “any previous year ; and
 - (v) “loan” includes the collection of funds from the issue of any debt instrument.”; and
- (c) by the addition immediately after paragraph (x) of that subsection, of the following new paragraph :—
 - “(y) the excess, if any, of the aggregate amount of the interest payable for any year of assessment by any holding company to any subsidiary company of such holding company, in respect of any loan obtained from such subsidiary company, over such part of the interest so payable as is attributable to such part of such loan as is equal to thrice the aggregate of the issued share capital and reserves of such holding company, at the end of that year of assessment, where such holding company is a manufacturer :

Provided that, where such holding company is not a manufacturer, the provisions of the preceding paragraph shall apply as if for the reference in that paragraph to the words “thrice the aggregate of the issued share capital and reserves”, there were substituted the words “four times the aggregate of the share capital and reserves.

In this paragraph—

- (i) the expressions “subsidiary company” and “holding company” shall have the same respective meanings assigned to them in the Companies Act, No. 7 of 2007;
- (ii) any holding company shall, in relation to any year of assessment, be deemed to be “a manufacturer”, if more than fifty *per centum* of the turnover for that year of assessment of such holding company, is from the sale of products manufactured by such holding company ;
- (iii) “reserves” do not include reserves created for the purpose of accounting for any surplus from the revaluation of any asset ; and
- (iv) “turnover” in relation to any year of assessment of any holding company, means the total amount receivable, whether actually received or not, from every sale made in that year of assessment of products manufactured by such holding company :—

(A) after deducting therefrom:—

(i) any sum included in such total amount, being proceeds from the disposal of any capital asset ;

(ii) the amount of any bad debt incurred during that year of assessment, being an amount which had been included in the turnover of such holding company for that or any previous year of assessment ; and

(iii) any sum included in such total amount, being a sum which represents the value added tax ; and

(B) after adding thereto any sum received during that year of assessment on account of any bad debt, written off or allowed in any previous year ; and

(v) “loan” includes the collection of funds from the issue of any debt instrument.”; and

(2) by the substitution for subsection (4) of that section, of the following subsection:—

“(4) In computing the statutory income for any year of assessment of any person from any trade, business, profession or vocation carried on or exercised by such person, no deduction shall be allowed under section 25 or this section or section 27, in respect of any expenditure or any part thereof, if it appears to the Assessor that the debt or such part thereof attributable to such expenditure or any part thereof, remains unpaid at the time an assessment for that year of assessment is made:

Provided that, if it is proved to the satisfaction of the Assessor within three years from the end of that year of assessment, that such debt or such part thereof has been paid within two years from the end of that year of assessment, the Assessor shall, notwithstanding the provisions of section 171, revise the assessment allowing the deduction of the sum so paid and any tax found to have been paid consequent to such disallowance of such deduction, shall notwithstanding anything to the contrary in any other provision of this Act, be refunded.”.

Amendment of
section 32 of the
principal
enactment.

12. Section 32 of the principal enactment is hereby amended as follows:—

- (1) in subsection (1) of that section, by the substitution for paragraph (c) of that subsection, of the following paragraph :—

“(c) statutory income from interest arising or accruing to any individual, being interest from which income tax has been deducted under section 134 or section 135, as the case may be ;”;

- (2) in subsection (3) of that section, by the addition immediately after paragraph (c) of that subsection the following new paragraph :—

“(d) interest accruing to such person from any Rupee Denominated Treasury Bond, purchased out of funds drawn from any Treasury Bond Investment External Rupee Account.”; and

- (3) in subsection (4) of that section by the substitution for the words and figure from “in sub-paragraph (xvii) of that paragraph,” to the end of that subsection, of the following words and figures :—

“in sub-paragraph (xvii) of that paragraph, shall not include :—

- (a) any interest from which tax has been deducted under section 133 or section 134; or
- (b) any dividend from which tax has been deducted under subsection (1) of section 65.”;

- (4) in subsection (5) of that section:—

- (a) by the substitution in paragraph (a) of that subsection for the words and figure “referred to in paragraph (x) of subsection (1)”, of the words and figures, “referred to in paragraph (x) or paragraph (y) of subsection (1)”;

- (b) in paragraph (b) of that subsection:—

- (i) by the substitution for the words “the amount of a loss incurred”, of the words “the amount of a loss, other than a loss referred to in paragraph (c), incurred”;
- (ii) by the substitution for all the words and figures from “this section previously and any deemed loss,” to the words “forward to the next year of assessment and so on:”, of the following :—

“this section previously, and any excess treated as a loss under paragraph (ii) of the proviso to paragraph (a), upto a maximum limit of thirty five *per centum* of the excess of the total statutory income for that year, over the aggregate of :—

- (i) statutory income from interest and dividends referred to in subsection (1) ;
- (ii) any interest income referred to in subsection (2) ; and
- (iii) any reward, share of fine, any lottery winning and any interest on compensation payable, as referred to in subsection (3),

for that year of assessment and any loss which cannot be deducted, may be carried forward to the next year of assessment and so on.”;

- (iii) by the substitution in paragraph (B) of the proviso to that paragraph, for the words “no loss can be carried forward”, of the words, “no loss shall be carried forward”;
- (iv) in paragraph (D) of the proviso to that paragraph:—
 - (a) by the substitution for the words “no loss can be deducted”, of the words “no loss shall be deducted”; and

- (b) by the substitution for all the words from “that in which the loss was incurred.”, to the end of that proviso, of the following words:—

“that in which the loss was incurred.

For the purposes of this paragraph, a change of ownership of a company is deemed to have occurred where more than one third of the issued share capital of the company is held at any time in the year of assessment for which the claim for deduction is made, either directly or through nominees, by persons who did not hold such capital at any time in the year of assessment in which the loss was incurred.

- (c) by the addition, at the end of paragraph (b) of that subsection, of the following new paragraph:—

“(c) any loss incurred on or after April 1, 2007, in any business of life insurance, to the extent of any profits from such business included in such total statutory income; the balance, if any, of such loss after such deduction, shall be deemed to be a loss for

the year of assessment immediately succeeding that year of assessment.

For the purpose of this paragraph, profits or loss from any business of life insurance shall be computed in accordance with the provisions of section 92.”; and

- (5) in subsection (6) of that section, by the substitution in paragraph (b) for the words and figures “provided for paragraph (b) of subsection (2).”, of the words and figures “provided for in paragraph (b) of subsection (5).”.

Amendment of section 34 of the principal enactment.

13. Section 34 of the principal enactment is hereby amended as follows:—

- (1) in paragraph (b) of subsection (2) of that section :—

(a) by the substitution in sub-paragraph (viii) of that paragraph, for the words “approved by the Minister :”, of the words “approved by the Minister.”; and

(b) by the omission of the proviso to that paragraph; and

- (2) in paragraph (a) of subsection (4) of that section, by the substitution in sub-paragraph (iii) of that paragraph, for the words “in that year of assessment shall not exceed ten million rupees;”, of the following words and figures :—

“in that year, of assessment shall not exceed:—

- (A) ten million rupees, where such year of assessment is the year of assessment commencing on April 1, 2006; and
 - (B) twenty five million rupees, where such year of assessment is any year of assessment commencing on or after April 1, 2007;”;
- (3) in paragraph (b) of subsection (4) of that section, by the substitution in sub-paragraph (ii) of that paragraph, for the words “in that year of assessment shall not exceed ten million rupees; ”, of the following words and figures:—

“in that year, of assessment shall not exceed:—

- (A) ten million rupees, where such year of assessment is the year of assessment commencing on April 1, 2006; and
- (B) twenty five million rupees, where such year of assessment is any year of assessment commencing on or after April 1, 2007;”.

14. Section 37 of the principal enactment is hereby amended in paragraph (d) of subsection (2) of that section, by the substitution for the words, “fifteen *per centum*” wherever it occurs in that paragraph, of the words “ten *per centum*”.

Amendment of section 37 of the principal enactment.

15. Section 42 of the principal enactment is hereby amended as follows:—

Amendment of section 42 of the principal enactment.

- (1) by the renumbering of that section as subsection (1) of that section;

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- (2) in the renumbered subsection (1), by the substitution for the words “The profits and income arising in Sri Lanka”, of the words and figures “The profits and income, for the year of assessment commencing on April 1, 2006, arising in Sri Lanka”; and
- (3) by the addition at the end of the renumbered subsection (1), of the following new subsection:—

“(2) The profits and income for any year of assessment commencing on or after April 1, 2007, arising in Sri Lanka to any consignor or consignee from the export of any goods brought to Sri Lanka on a consignment basis and re-exported without subjecting such goods to any process of manufacture, shall be liable to income tax at the appropriate rate specified in the Fifth Schedule to this Act.”.

Amendment of section 44 of the principal enactment.

16. Section 44 of the principal enactment is hereby amended by the substitution for the words, “unit trust or mutual fund, from the sale of any share or a right to any share”, of the words and figures “unit trust or mutual fund, from the sale on or before March 31, 2007, of any share or right to any share”.

Amendment of section 45 of the principal enactment.

17. Section 45 of the principal enactment is hereby amended in subsection (1) of that section, by the substitution for the words “such specified profits shall be chargeable with tax at the appropriate rate specified in the Fifth Schedule to this Act, notwithstanding anything to the contrary in any other provision of this Act.”, of the words “such specified profits shall, subject to the other provisions of this Act, be chargeable with tax at the appropriate rate specified in the Fifth Schedule to this Act.”.

Amendment of section 61 of the principal enactment.

18. Section 61 of the principal enactment is hereby amended as follows:—

- (1) in subsection (1) of that section:—

- (a) by the substitution for paragraph (b) of that subsection, of the following paragraph:—

“(b) equal to:—

- (i) ten *per centum* of the relevant part of the aggregate amount of the gross dividends distributed by such company in that year of assessment, out of the profits for any year of assessment; and
- (ii) fifteen *per centum* of the excess of thirty three and one third *per centum* of the distributable profits of such company for the year of assessment immediately preceding that year of assessment, (hereinafter in this paragraph referred to as the “preceding year”) over the aggregate of the gross dividends distributed by such company in such preceding year, where such company has in the preceding year distributed dividends less in amount than twenty five *per centum* of the distributable profits for that preceding year:

Provided that, where the Commissioner-General is satisfied, that any company has been restrained from distributing or has set apart, the whole or any part of its distributable profits for any year of assessment in order to comply with any requirement imposed by any other written law,

the whole or such part so restrained from being distributed or so set apart, shall be deemed to have been distributed, for the purposes of determining whether such company has distributed twenty five *per centum* of its distributable profits for that year of assessment.

In this paragraph—

“company” does not include any unit trust or mutual fund;

“distributable profits” in relation to any year of assessment and to any company means, the book profits of that company for that year of assessment, reduced by the aggregate of—

(a) the income tax payable by that company for that year of assessment calculated in accordance with paragraph (a);

(b) the cost incurred by that company in that year of assessment in the acquisition of any land or any capital asset; and

(c) any notional
p r o f i t
computed on
the basis of a
revaluation of
any capital
asset and
included in
such book
profits,

increased by the
aggregate of the
allowance for
d e p r e c i a t i o n
deducted in respect
of such capital asset
in calculating such
book profits and any
notional loss
computed on the
basis of a revaluation
of any capital asset
and included in such
book profits;

“relevant part” in relation
to the aggregate amount
of the gross dividends
distributed by any
company, means the
balance of such aggregate
after deducting therefrom
any dividend distributed:—

- (a) to any company or other body of person, who or which is exempt from income tax under paragraph (a) or paragraph (c) of section 7;
 - (b) to any unit trust or mutual fund;
 - (c) to any shareholder who is exempt from income tax under section 10 in respect of such dividend; or
 - (d) out of any dividend received from another resident company;”;
- (b) in paragraph (ii) of the proviso to paragraph (c) of that subsection, by the substitution for the words from, “of such balance over such amount of such dividend.”, to the and of that paragraph, of the words “of such balance over such amount of such dividend.”;
- (c) by the repeal of paragraph (d) of that subsection; and

- (2) by the repeal of subsection (2) of that section and the substitution therefore of the following subsection:—

“(2) For the purposes of this section “gross dividends” in relation to any dividend distributed by any company, means the amount of the dividend before any deduction is made under section 65.”.

19. Section 63 of the principal enactment is hereby amended as follows:—

Amendment of section 63 of the principal enactment.

- (1) in paragraph (b) of that section, by the substitution for the words and figure, “under section 10; or”, of the words and figure “under section 10;”;
- (2) in paragraph (c) of that section, by the substitution for the words “another resident company,”, of the words “another resident company;or”;
- (3) by the insertion immediately after paragraph (c) of that section, of the following new paragraph:—

“(d) such dividend is a dividend declared by a quoted public company,”; and

- (4) in the marginal note to that section, by the substitution for the words “part of the assessable income”, of the words “part of the total statutory income”.

20. Section 65 of the principal enactment is hereby amended as follows:—

Amendment of section 65 of the principal enactment.

- (1) in subsection (1) of that section :—
- (a) by the substitution for the words “an order to pay money out of profits on which the taxable income of that company is computed for any

year of assessment, income tax equal to ten *per centum*:", of the words "and order to pay money, income tax equal to ten *per centum* of such gross dividend:"; and

- (b) by the repeal of the proviso to that subsection and of the definition of the expression "amount of gross dividend", and the substitution therefor, of the following proviso:—

"Provided that, in determining for the purposes of this subsection, the amount of gross dividend in relation to any dividend payable by any resident company, no account shall be taken of such part of that dividend, if any, as is paid by any other resident company and received by the first mentioned resident company, either directly or through one or more intermediary companies."; and

- (2) in paragraph (d) of subsection (2) of that section :—

- (a) by the substitution for sub-paragraph (i) of that paragraph, of the following sub-paragraph :—

"(i) dividends received"; and

- (b) by the omission of sub-paragraph (ii) of that paragraph; and

- (3) in the marginal note to that section, by substitution for the words "entitled to deduct tax", of the words "to deduct tax".

Amendment of section 66 of the principal enactment.

21. Section 66 of the principal enactment is hereby amended in paragraph (b) of subsection (5) of that section, by the substitution for the words "and recovery shall apply accordingly.", of the following words:—

"and recovery shall apply accordingly:

Provided that the tax so assessed and charged shall be reduced by the amount of the tax, if any, referred to in sub-paragraph (ii) of paragraph (b) of subsection (1) of section 61.”.

22. Section 70 of the principal enactment is hereby amended in subsection (4) of that section, by the substitution for the words and figure “provisions of section 114,” of the words and figure “provisions of section 113,”.

Amendment of section 70 of the principal enactment.

23. Section 73 of the principal enactment is hereby amended in subsection (5) of that section, by the substitution for the words and figure “provisions of section 114,” of the words and figure “provisions of section 113,”.

Amendment of section 73 of the principal enactment.

24. Section 75 of the principal enactment is hereby amended in subsection (4) of that section, by the substitution for all the words and figures from “Such part of the taxable income,” to “Act No. 36 of 1987”, of the following words and figures:—

Amendment of section 75 of the principal enactment.

“Such part of the taxable income:—

- (a) for the year of assessment commencing on April 1, 2006, of any unit trust or mutual fund, as consists of the profits and income derived from the business of dealing in shares or debt instruments; and
- (b) for any year of assessment commencing on or after April 1, 2007, of any unit trust or mutual fund as consists of the profits and income derived from dealing in debt instruments,

in accordance with the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987”.

25. Section 78 of the principal enactment is hereby amended in subsection (1) of that section, as follows :—

Amendment of section 78 of the principal enactment.

- (1) by the substitution for the words “shall be charged with income tax on the aggregated amount of the divisible profits as referred to in section 76 and other income at the appropriate rate”, of the words and figures “shall be charged with income tax:—
 - (a) for the year of assessment commencing on April 1, 2006, on the aggregate of the divisible profits referred to in section 76 and other income; and
 - (b) for any year of assessment commencing on or after April 1, 2007, on the excess, if any, of the aggregate of the divisible profits referred to in section 76 and other income over six hundred thousand rupees,
 at the appropriate rate”;
- (2) by the substitution in the first proviso to that subsection, for the words and figures “under the Finance Act, No. 11 of 2004”, of the words and figures “under the Economic Service Charge Act, No. 13 of 2006, for that year of assessment”; and
- (3) by the substitution in the second proviso to that subsection, for the words and figures “paid under the Finance Act, No. 11 of 2004,”, of the words and figures “paid under the Economic Service Charge Act, No. 13 of 2006,”.

Replacement of section 102 of the principal enactment.

26. Section 102 of the principal enactment is hereby repealed and the following section is substituted therefore:—

“Deemed profits and income of any non-governmental organization to be chargeable with income tax.

102. (1) Where any non governmental organization as defined in subsection (2) of this section, receives in any year of assessment any money in the form of a grant, donation, contribution or in any other form, an amount equal to three *per centum* of the aggregate of such money after deducting from such

aggregate any part of such money as is received from the Government of Sri Lanka, shall, notwithstanding anything to the contrary in any other provision of this Act, be deemed to be the profits and income attributable to the aggregate of such money (hereinafter in this section referred to as “deemed profits and income”) of such non-governmental organization for that year of assessment, and such deemed profits and income of such non governmental organization for such year of assessment, shall be deemed to have arisen in Sri Lanka.

(2) For the purposes of subsection (1) a “non-governmental organization” means any organization or association, whether corporate or unincorporate, formed by a person or a group of persons on a voluntary basis and which is non governmental in nature, dependent on money received in the manner referred to in subsection (1) and established and constituted for the provision or relief and services of a humanitarian nature to the poor and destitute, the sick, orphans, widows, youth, children or generally for the provision of relief to the needy, unless such organization or association is determined by the Commissioner-General not to be a non-governmental organization for the purposes of this section, but does not include any approved charity within the meaning of paragraph (a) of subsection (8) of section 34, in respect of which any remission or reduction has been granted under subsection (3) of section 35.

(3) The deemed profits and income of a non-governmental organization shall, subject to the provisions of paragraph (e) of section 7, be chargeable with income tax at the appropriate rate specified in the Fifth Schedule to this Act :

Provided that 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 remit the tax payable by such non-governmental organization for that year of assessment, if it appears to him that such reduction is just and equitable in all the circumstances of the case.”.

Amendment of section 106 of the principal enactment.

27. Section 106 of the principal enactment is hereby amended as follows:—

- (1) in paragraph (c) of the proviso to subsection (1) of that section, by the substitution for the words and figure “under section 133,” of the words and figures “under section 133, section 134 or section 135, as the case may be, ”; and
- (2) in subsection (2) of that section, by the substitution for the words and figure “on or before the November 30”, of the words and figure “on or before September 30”.

28. Section 112 of the principal enactment is hereby amended in subsection (1) of that section as follows :—

Amendment of section 112 of the principal enactment.

- (1) by the substitution in paragraph (c) of that subsection, for the words and figure “of section 120; or”, of the words and figure “of section 120;”;
- (2) by the substitution in paragraph (d) of that subsection, for the words “ under that section,”, of the words “under that section; or”; and
- (3) by the addition immediately after paragraph (d) of that subsection, of the following new paragraph :—

“(e) where any precedent partner of a partnership fails to furnish within the time specified in a notice given under subsection (3) of section 76, a return which such precedent partner is required to furnish under that subsection,”.

29. Section 113 of the principal enactment is hereby amended by the repeal of subsection (3) of that section and the substitution therefor of the following subsection :—

Amendment of section 113 of the principal enactment.

- “(3) Notwithstanding anything contained in sub section (1) and subsection (2) of this section, the entirety of the tax payable :—
- (a) (i) by any company resident in Sri Lanka, under sub-paragraph (i) of paragraph (b) of subsection (1) of section 61; or
 - (ii) by any company not resident in Sri Lanka, under paragraph (b) of subsection (1) of section 62 in respect of remittances made by such company,
- shall be paid on or before the thirtieth day succeeding the date of distribution of such dividends or making such remittances, as the case may be;

- (b) by any company resident in Sri Lanka, under sub-paragraph (ii) of paragraph ((b) of subsection (1) of section 61, shall be paid on or before the fifteenth day of May of the year of assessment immediately succeeding the year of assessment for which such tax is payable.”.

Replacement of section 133 of the principal enactment.

30. Section 133 of the principal enactment is hereby repealed and the following section is substituted therefor :—

“Banks and financial institutions to deduct income tax.

133. (1) Where any bank or financial institution pays any interest on any sum of money deposited with it, such bank or financial institution shall, subject to the provisions of subsection (2), deduct income tax in accordance with the provisions of this section from the interest payable and such deduction shall be made at the appropriate rate specified in subsection (4) and at the time such interest is paid.

(2) Where any sum of money (in this subsection referred to as the “first mentioned sum”) is paid to any bank or financial institution in return for any pledge in writing that such bank or financial institution shall pay to the bearer of the pledge not identified by name in such pledge, a sum of money which is in excess of the first mentioned sum (in this subsection referred to as the “stated sum”) at the time such pledge is presented for redemption or after such date as is stated in such pledge, such bank or financial institution shall deduct income tax on the excess of the stated sum over the first mentioned sum. The deduction shall be made at the rate of ten *per centum* of such excess and at the time the first mentioned sum is paid to such bank or financial institution.

(3) The deduction referred to in subsection (1) from any interest referred to therein shall not apply to any interest :—

(a) of which the recipient is :—

(i) any foreign government;

(ii) the Consolidated Fund of the Government of Sri Lanka: or

(iii) any Provincial Fund of any Provincial Council;

(b) which is exempt from income tax under this Act; or

(c) from which income tax is deductible under section 37 or section 96.

(4) Where the recipient of the interest from which income tax is deductible under this section is :—

(a) any partnership, company or body of persons other than any charitable institution, the deduction shall be made at the rate of ten *per centum* of such interest;

(b) any charitable institution which tenders to the branch of such bank or financial institution with which the deposit is made, a declaration in writing in relation to any year of assessment that its assessable income for that year of assessment:—

- (i) does not exceed 300,000 rupees, no deduction shall be made from such interest payable to such charitable institution for that year of assessment; or
 - (ii) exceeds 300,000 rupees, deduction shall be made from the interest payable to such charitable institution at the rate of ten *per centum* of such interest for that year of assessment;
- (c) any individual then, in relation to any year of assessment where such individual tenders to the branch of the bank or of the financial institution with which the deposit is made, a declaration in writing that for that year of assessment his assessable income :—
 - (i) does not exceed 300,000 rupees, no deduction shall be made from such interest payable for that year of assessment;
 - (ii) exceeds 300,000 rupees but does not exceed 600,000 rupees, deduction shall be made from such interest payable for that year of assessment, at the rate of two and a half *per centum* of such interest; and
 - (iii) exceeds 600,000 rupees, deduction shall be made from such interest payable for that

year of assessment on every sum of money deposited, at the rate of ten *per centum* of such interest;

- (d) any charitable institution which has not tendered the declaration referred to in paragraph (b) or any individual referred to in paragraph (c) who has not tendered the declaration referred to in that paragraph, as the case may be, deduction shall be made at the rate of ten *per centum* of such interest:

Provided that where such charitable institution or such individual maintains:—

- (a) one savings account, no deduction shall be made from interest paid for any month; or
- (b) more than one savings account, no deduction shall be made from interest paid for any month in respect of only one such account,

where the interest paid is less than five thousand rupees.

For the purpose of this proviso, “savings account” means an account, whether or not subject to any condition affecting the right to withdraw money therefrom and which bears interest at a rate not dependent on the period for which the deposit is maintained.

(5) Where any interest payable to any person or partnership is credited to any account maintained by any bank or financial institution for or on behalf of such person or partnership, such interest shall be deemed to have been paid to such person or partnership, at the time such interest is so credited.

(6) The interest payable by any bank or financial institution on any sum of money deposited with it jointly by two or more individuals, shall be apportioned among such individuals in accordance with the mandate given to such bank or financial institution in relation to the apportionment among such individuals of such sum or the interest thereon, and such part of the interest as is apportioned to any such individual, shall be deemed to be the interest payable to such individual on such part of such sum as is apportioned to him.

(7) Every bank or financial institution which deducts income tax in accordance with the provisions of subsection (1) from any interest paid by it to any person or partnership, as the case may be, shall issue to such person or partnership a statement setting out the following particulars:—

- (a) the gross amount of the interest paid;
- (b) the rate of tax and the amount of tax deducted;
- (c) the net amount of interest actually paid; and
- (d) the period to which such interest relates.

(8) (a) Where income tax is deductible by any bank or financial institution in accordance with this section, from the interest payable to any individual or charitable institution, such individual or charitable institution may, if the amount of income tax payable by him or it for any year of assessment, had the interest from which tax is deductible under this section been included in the assessable income of such individual or such charitable institution, as the case may be, for that year of assessment, is less than the income tax deductible for that year of assessment under this section, make an application to the Commissioner-General in such form and containing such particulars as may be specified by the Commissioner-General, requesting that a direction be issued to that bank or financial institution to make the necessary adjustments in the deduction of income tax for that year of assessment.

(b) The Commissioner-General or any other officer authorized by the Commissioner-General may, on an application made by any individual or charitable institution under paragraph (a), issue to the bank or financial institution specified in such application, the necessary direction in writing (a copy of which shall be issued to the applicant) and such bank or financial institution shall comply with such direction :

Provided that any such direction issued, may be varied at any time.

(c) Any individual or charitable institution who or which is not satisfied with a direction issued under paragraph (b) in respect of any year of assessment may, within thirty days of

the issue of such direction, appeal to the Commissioner-General in writing setting out precisely the grounds of such appeal. The decision of the Commissioner-General on any appeal made to him under this paragraph, shall be final and conclusive:

Provided that the Commissioner-General shall on request made in writing by such individual or charitable institution, cause an assessment to be made under section 163 on such individual or charitable institution for that year of assessment, for the purpose of enabling such individual or charitable institution to prefer an appeal under section 165 against such assessment.

(d) Every bank and financial institution shall:—

- (i) keep a proper record of the interest paid by it in any year of assessment to any person or partnership and the date or dates on which such interest is paid, in such manner as may be specified by the Commissioner-General ; and
- (ii) permit any officer authorized in writing by the Commissioner- General, to inspect any record maintained by it under sub- paragraph (i) .”.

Amendment of section 134 of the principal enactment.

31. Section 134 of the principal enactment is hereby amended as follows :—

- (1) by the renumbering of that section, as subsection (1) of that section ; and
- (2) by the addition immediately after the re-numbered subsection (1) of that section, of the following new subsection :—

“(2) The excess referred to in subsection (1) shall be deemed to be interest accruing from such Security, Treasury Bond, Treasury Bill or Central Bank Security, as the case may be.”.

32. Section 135 of the principal enactment is hereby amended by the repeal of subsection (2) of that section.

Amendment of section 135 of the principal enactment.

33. Section 137 of the principal enactment is hereby amended as follows :—

Amendment of section 137 of the principal enactment.

- (1) by the renumbering of that section, as subsection (1) of that section;
- (2) in the re-numbered subsection (1) of that section, by the substitution for the words and figure “referred to in section 133, on which”, of the words and figure “referred to in section 134, on which”; and
- (3) by the addition immediately after the re-numbered subsection (1) of that section, of the following new subsection :—

“(2) Where any person is engaged in any primary market transaction or any secondary market transaction involving any corporate debt security issued by or on behalf of any company, on which income tax has been deducted under section 135 during any year of assessment at the rate of ten *per centum* at the time the interest is paid or credited or the discount is allowed on such security, such person shall be entitled to a notional tax credit at ten *per centum* of the grossed up amount of interest income from such transaction, to an amount of one ninth of the same, if such interest income forms part of the statutory income of such person being a company or the assessable income of such person being a person other than a company, for that year of assessment.”.

Amendment of section 138 of the principal enactment.

34. Section 138 of the principal enactment is hereby amended in subsection (2) of that section, by the substitution for the words “Where any person being a company which has included any interest income referred to in section 133 of this Act”, and for the words “assessment, but such company”, of the words “Where any person other than an individual who or which has included any interest income referred to in section 134 of this Act” and of the words “assessment, but such person”, respectively.

Amendment of section 139 of the principal enactment.

35. Section 139 of the principal enactment is hereby amended as follows :—

- (1) in subsection (1) of that section, by the substitution for the words and figures “of section 133 or section 136” and for the words and figures “under section 133 or section 136”, of the words and figures “of section 133 or section 135” and of the words and figures “under section 133 or section 135” respectively ;
- (2) in subsection (5) of that section, by the substitution for the words and figures “under section 133 or section 136”, of the words and figures “under section 133 or section 135” ; and
- (3) in the marginal note to that section, by the substitution for the words and figures “sections 133 or 136.”, of the words and figures “sections 133 or 135.”.

Amendment of section 153 of the principal enactment.

36. Section 153 of the principal enactment is hereby amended as follows :—

- (1) in subsection (1) of that section by the substitution, for the words “of such specified fee.”, of the following words and figures:—

“of such specified fee:

Provided that where the specified fee for any year of assessment commencing on or after April 1, 2007, consists of fees in respect of any construction work, the rate at which income tax is deductible from such fees, shall be one *pre centum*.”; and

- (2) in subsection (2) of that section in the definition of the expression “specified fee”, by the substitution for the words “includes any commission, brokerage or other sums”, of the words “includes any commission, brokerage, a payment made for the supply of any article on a contract basis through tender or quotation or other sums”.

37. Section 166 of the principal enactment is hereby amended in subsection (1) of that section, by the substitution for the words “consisting of not more than twenty members”, of the words “consisting of not more than thirty members”.

Amendment of section 166 of the principal enactment.

38. Section 173 of the principal enactment is hereby amended in subsection (3) of that section as follows :—

Amendment of section 173 of the principal enactment.

- (1) by the substitution for all the words from “For the purposes of this paragraph “income tax”, to the end of sub-paragraph (B) of that subsection, of the following words and figures :—

“For the purposes of this paragraph “income tax”:—

- (A) in relation to a company for any year of assessment shall not include tax payable by that company, under paragraph (b) of subsection (1) of section 61, for that year of assessment ;

(B) in relation to any person, for any year of assessment means, the income tax which would have been payable by such person for the year preceding that year of assessment (hereinafter referred to as the “preceding year”) had any profits and income, other than the net annual value of a residence and any subsidy exempt from income tax under this Act, which were exempt from income tax, under this Act or any other written law and in respect of which such exemption ceased in such preceding year, been taken into account in computing the assessable income of that person for that year of assessment;”;

(2) by the substitution for sub-paragraph (c) of that subsection of the following :—

“(iii) the Commissioner-General may reduce or waive any penalty payable under this section, if it appears to the Commissioner-General that such reduction or waiver is just and equitable in all the circumstances ;

(iv) the Commissioner-General shall waive the penalty accrued on the tax for any year of assessment ending on or before March 31, 2005, and which remained unpaid as at October 1, 2005, if the entirety of such tax is paid in accordance with a scheme agreed to on or before December 31, 2007, with him in that behalf, within a period of not more than three years succeeding the date of such agreement. Where any such scheme so agreed

to is not adhered to, the Commissioner-General shall, notwithstanding the provisions of the preceding paragraph, not reduce or waive such penalty.”.

39. Section 175 of the principal enactment is hereby amended as follows :—

Amendment of section 175 of the principal enactment.

- (1) in paragraph (b) of that section, by the substitution for the words “which was in default or goes into default”, of the words “which was in default or went into default” ;

- (2) by the insertion immediately after paragraph (b) of that section, of the following new paragraph :—

“(bb) any income tax charged and levied under the Inland Revenue Act, No. 38 of 2000 and which was in default or goes into default on or after April 1, 2006 ;”;

- (3) in paragraph (d) of that section, by the substitution for the words and figures “or in section 113”, of the words and figures “or in section 165 of the Inland Revenue Act, No. 38 of 2000, or in section 113” ; and

- (4) in paragraph (e) of that section by the substitution for the words “a company is required to pay under this Act ; or under”, of the words “a company was required to pay under”.

40. Section 200 of the principal enactment is hereby amended as follows :—

Amendment of section 200 of the principal enactment.

- (1) in subsection (7) of that section, by the substitution for the words and figures “paragraph (a) of section 8, shall be refunded”, of the words and figures “paragraph (a) section 7, shall be refunded” ; and

(2) in subsection (8) of that section:—

- (a) by the substitution in paragraph (a) of that subsection, for the word and figure “section 134”, of the words and figures “section 133 or section 134” ; and
- (b) in paragraph (b) of that subsection, by the substitution for the word and figure “section 133”, of the words and figures “section 133 or section 134”.

Amendment of
section 207 of
the principal
enactment.

41. Section 207 of the principal enactment is hereby amended by the substitution for the words, “authorized representative to the Commissioner-General or a Commissioner or a Deputy Commissioner or an Assessor, then,”, of the words “authorized representative to the Commissioner-General or the Senior Deputy Commissioner-General or a Deputy Commissioner-General or a Senior Commissioner or a Commissioner or a Deputy Commissioner or a Senior Assessor or an Assessor, then”.

Amendment of
section 208 of
the principal
enactment.

42. Section 208 of the principal enactment is hereby amended and follows :—

- (1) in subsection (4) of that section, by the substitution for the words “with the written approval of a Commissioner of Inland Revenue or”, of the words “with the written approval of the Commissioner-General of Inland Revenue or” ; and
- (2) in subsection (5) of that section, by the substitution for the words “an Assessor of Inland Revenue, shall be deemed”, of the words “an Assessor of Inland Revenue or a Tax Officer of Inland Revenue, shall be deemed”.

43. Section 217 of the principal enactment is hereby amended as follows :—

Amendment of
section 217 of
the principal
enactment.

- (1) by the insertion, immediately after the definition of the expression “commercial bank”, of the following new definition :—

“Commissioner” means a Commissioner of Inland Revenue, appointed or deemed to be appointed under this Act;”;

- (2) in paragraph (a) of the definition of the expression “Commissioner-General” by the substitution for the words. “includes a Senior Deputy Commissioner, a Deputy Commissioner-General, Senior Commissioner and Deputy Commissioner,”, of the words “includes the Senior Deputy Commissioner-General, a Deputy Commissioner-General, Senior Commissioner, a Commissioner and Deputy Commissioner”;

- (3) by the insertion immediately after the definition of the expression “Deputy Commissioner” of the following new definition :—

“Deputy Commissioner-General” means a Deputy Commissioner-General of Inland Revenue appointed or deemed to be appointed under this Act;”;

- (4) by the repeal of the definition of the expression “mutual fund”; and

- (5) by the insertion immediately after the definition of “Securities and Exchange Commission”, of the following new definitions:—

“Senior Deputy Commissioner-General” means the Senior Deputy Commissioner-General of Inland Revenue appointed or deemed to be appointed under this Act ;

“Senior Commissioner” means a Senior Commissioner of Inland Revenue appointed or deemed to be appointed under this Act ;”.

Amendment of
section 218 of
the principal
enactment.

44. Section 218 of the principal enactment is hereby amended as follows :—

(1) in subsection (2) of that section:—

(a) by the substitution for the words and figures “under any provisions of the Inland Revenue Act, No. 38 of 2000 for a period specified in those provisions and there remains on March 31, 2000, in relation to any person,” of the words and figures “under any provisions of the Inland Revenue Act, No. 28 of 1979 or of the Inland Revenue Act, No. 38 of 2000, as the case may be, for a period as specified in any of those provisions and there remains on March 31, 2006, in relation to any person,”;

(b) by the substitution in the proviso to that subsection, for the words and figures “year of assessment commencing on or after April 1, 2000, shall,”, of the words and figures “year of assessment commencing on or after April 1, 2006, shall,”;

(2) in subsection (4) of that section, by the substitution for the words and figures “any year of assessment commencing on or after April 1, 2000, such balance shall,”, of the words and figures “any year of assessment commencing on or after April 1, 2006, such balance shall,”;

- (3) by the substitution for subsection (5) of that section, of the following subsection:—

“(5) Where an individual:—

- (a) pays on or after April 1, 2006, to the Government of Sri Lanka or to any institution referred to in paragraph (ee) of subsection (2) of section 31 of the Inland Revenue Act, No. 28 of 1979, any amount:—
 - (i) in the repayment of the capital of any loan ; or
 - (ii) as monthly payments in terms of any rent purchase agreement, referred to in that paragraph ; or
- (b) has incurred prior to April 1, 2006, any expenditure referred to in paragraph (i) of subsection (2) of section 31 of the Inland Revenue Act, No. 38 of 2000, and apportioned to any year of assessment commencing on or after April 1, 2006,

the amount so paid or the expenditure so apportioned, as the case may be, shall, notwithstanding anything in subsection (1) but subject to the conditions specified in the respective paragraphs referred to in paragraph (a) and (b), be deductible from the assessable income of that individual for any year of assessment commencing on or after April 1, 2006, as if the Inland Revenue Act, No. 28 of 1979 or the Inland Revenue Act, No. 38 of 2000, as the case may be, continues to be in force.”;

- (4) by the substitution for subsection (6) of that section, of the following subsection:—

“(6) The allowance for depreciation in respect of any :—

- (a) capital asset acquired prior to April 1, 2000, or any qualified building constructed prior to April 1, 2000 ; or
- (b) capital asset acquired on or after April 1, 2000, but prior to April 1, 2006, or any qualified building constructed on or after April 1, 2000, but prior to April 1, 2006,

shall, notwithstanding the non-application referred to in subsection (1), be computed in accordance with the respective provisions of the Inland Revenue Act, No. 28 of 1979 or the Inland Revenue Act, No. 38 of 2000, as the case may be.”; and

- (5) in the marginal note to that section, by the substitution for the words and figures “Inland Revenue Act, No. 38 of 2000.”, of the words and figures “Inland Revenue Act, No. 28 of 1979 or Inland Revenue Act, No. 38 of 2000.”.

Amendment of the First Schedule to the principal enactment.

45. The First Schedule to the principal enactment is hereby amended as follows :—

- (1) by the substitution for Part IV of that Schedule of the following Part—

“Part IV

The rates of income tax applicable to certain profits from employment specified in subsection (2) of section 35.

- (a) For the year of assessment commencing on April 1, 2006-

Where the period of contribution or the period of service, as the case may be, in relation to the excess referred to in subsection (2) of section 35 (other than any sum referred to in the proviso to that subsection) is less than 20 years.

on the first Rs. 1,000,000 of the sum received

NIL

Where the period of contribution or the period of service, as the case may be, in relation to the excess referred to in subsection (2) of section 35 (other than any sum referred to in the proviso to that subsection) is not less than 20 years.

on the first Rs. 2,000,000 of the sum received

NIL

on the next Rs. 500,000

5 per centum

on the next Rs. 500,000

10 per centum

on the balance

15 per centum

- (b) For any year of assessment commencing on or after April 1, 2007-

Where the period of contribution or the period of service, as the case may be, in relation to the excess referred to in subsection (2) of section 35 (other than any sum referred to in the proviso to that subsection) is less than 20 years.

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on the first Rs. 2,000,000	<i>NIL</i>
on the next Rs. 1,000,000	<i>5 per centum</i>
on the balance	<i>10 per centum</i>

Where the period of contribution or the period of service, as the case may be, in relation to the excess referred to in subsection (2) of section 35 (other than any sum referred to in the proviso to that subsection) is not less than 20 years.

on the first Rs. 5,000,000	<i>NIL</i>
on the next Rs. 1,000,000	<i>5 per centum</i>
on the balance	<i>10 per centum.”.</i>

- (2) by the addition at the end of Part IV of that Schedule, of the following new Part :—

“Part V

The rate of income tax applicable to any sum referred to in the proviso to subsection (2) of section 35	as per Part I, but subject to a maximum of 20 <i>per centum</i> .
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Amendment of the Second Schedule to the principal enactment.

46. The Second Schedule to the principal enactment is hereby repealed and the following Schedule is substituted therefore :—

“SECOND SCHEDULE [Section 61 and 75]

Rates of Income Tax-Companies

PART - A

1. Any venture capital company-on the taxable income for every year of assessment commencing on or after April 1, 2006. *20 per centum*
2. Any unit trust or mutual fund—
 - (a) For the year of assessment commencing on April 1, 2006—
 - (i) on such part of the taxable income as is referred to in sub section (4) of section 75 ; *10 per centum*
 - (ii) on the balance part of the taxable income; *20 per centum*
 - (b) For any year of assessment commencing on or after April 1, 2007—
on the taxable income *10 per centum*

PART - B

1. (a) For the year of assessment commencing on April 1, 2006—
Any company other than a company referred to in PART A and of which the taxable income does not exceed Rs. 5,000,000. *15 per centum*

- (b) For any year of assessment commencing on or after April 1, 2007—

any Company—

- (A) (i) of which the taxable income does not exceed Rs. 5,000,000 ;

- (ii) which is not a company referred to in PART A ; and

- (B) which is not the holding company, a subsidiary company, or an associate company of a group of companies.

on the taxable income. *15 per centum*

For the purpose of item(B), the expressions “holding company”, “subsidiary company”, and, “group of companies” shall have the same respective meanings which they have in the Companies Act, No.7 of 2007.

2. Any company for the year of assessment in which its shares are first quoted in any official list published by a stock exchange licensed by the Securities and

Exchange Commission of Sri Lanka, (hereinafter referred to as the “first year of assessment”) and for each year of assessment within the period of four years immediately succeeding that first year of assessment, for which the taxable income exceeds Rs. 5,000,000—

on the taxable income for
that year of assessment $33 \frac{1}{3}$ per centum

Provided that where such first year of assessment is any year of assessment which commences prior to April 1, 2006, the rate of $33 \frac{1}{3}$ per centum shall apply in relation to any year of assessment which falls within such period of four years, but which commences on or after April 1, 2006.

3. Any company other than any company herein before referred to in this Schedule, for any year of assessment—

on the taxable income for
that year of assessment 35 per centum

4. Where the taxable income of any company for any year of assessment exceeds five million rupees, then such part of the tax computed in accordance with this Act, as being payable by such company for such year of assessment as is attributable to such excess, shall not be more than such excess.”.

47. (1) Amendments made to sections 4(1), 13, 25(1), 78(1), 102, 153, 218 and the First Schedule to the principal enactment by sections 2(1), 6(4), 10(5) and (6), 25(2) and (3), 26, 36(2), 44(3) and (4) and 45(2) respectively, of this Act, shall be deemed for all purposes to have come into force on April 1, 2006.

Retrospective effect.

(2) The amendment made to section 32(3) of the principal enactment by section 11(1) of this Act, shall be deemed for all purposes to have come into force on November 1, 2006.

Validation of certain exemptions provided for in agreements entered into by the Board of Investment of Sri Lanka.

48. Where, prior to the date of commencement of this Act but on or after April, 1, 2006 the Board of Investment of Sri Lanka has entered into an agreement with an enterprise under section 17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978, and the agreement provides for the exemption of the whole or any part of the profits and income of such enterprise from income tax payable under the principal enactment, such exemption shall be deemed to have been and to be, valid and effectual from the date of such agreement, as if such exemption had been expressly granted to that enterprise by the principal enactment.

Sinhala text to prevail in case of inconsistency.

49. In the event of any inconsistency between the Sinhala and Tamil texts of this Act, the Sinhala text shall prevail.

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