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EXTRAORDINARY

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PART I : SECTION (I) — GENERAL

Government Notifications

INLAND REVENUE ACT, NO. 10 OF 2006

Regulations under Section 212

REGULATIONS made under Section 212 (2)(c) of the Inland Revenue Act, No. 10 of 2006, for the purpose of that Act.

MAHINDA RAJAPAKSA,
Minister of Finance and Planning.

Ministry of Finance and Planning,
Colombo 01,
31st March, 2014.

REGULATIONS

In complying with the respective provisions of the Inland Revenue Act, as cosequential to the adoption of Sri Lanka Accounting Standards which consist of Sri Lanka Financial Reporting Standards (SLFRS)/Lanka Accounting Standards (LKAS) in the preparation of financial statements, in relation to any year of assessment commencing on or after April 1, 2012, the following adjustments shall be made in the ascertainment of profits or income for tax purposes, and the information required shall be provided:

No.	Accounting Standard Adopted	Adjustments/information required to be made or provided, for tax purposes
1.0	FIRST TIME ADOPTION OF SRI-LANKA FINANCIAL REPORTING STANDARDS (SLFRS 1)	<p>1.1 Details of recognitions, de-recognitions, reclassifications and reconciliations of assets shall be furnished together with all adjustments made to opening retained earnings.</p> <p>1.2 The expenditure (other than capital expenditure) incurred in relation to the adoption of Sri Lanka Financial Reporting Standards (SLFRS) as first time adopters shall, for the purpose of deduction, be spread over a period of 3 years in equal instalments (i.e. the year of assessment in which the expenditure incurred and the next 2 year of assessments).</p>



No.	Accounting Standard Adopted	Adjustments/information required to be made or provided, for tax purposes
		<p>1.3 For determining any additional liability or excess payment, upon the transition, adjustments in relation to restatement of assets and liabilities shall be taken in to account except in relation to any capital nature transaction such as an adjustment to “available for sale assets” which shall be at the time of disposal. The additional tax or refund position of the first year of adoption should be furnished.</p> <p>1.4 The adjustment arising upon transition will be a one-off tax point.</p> <p>(a) If the adjustment results in an additional tax, settlement of such liability shall be made in the year of assessment in which the adjustment was made and in the period of two year of assessments immediately succeeding, in equal instalments; and</p> <p>(b) If the adjustment results in an excess payment, no refund shall be made, but allowed to be set off against income tax liability in the year of assessment in which the adjustment was made and in the period of two year of assessments immediately succeeding.</p> <p>1.5 Where a dividend is paid out of retained earnings or profits on the conversion, such dividend shall be liable to tax under the respective existing provisions.</p>
2.0	INVENTORIES (LKAS 2)	<p>2.1 Any inventory (e.g. returnable packaging materials) re-classified in line with Sri Lanka Accounting Standards (LKAS) as non-current asset shall continue to be treated as inventory in line with the existing tax practice.</p> <p>2.2 When inventories are purchased with deferred settlement terms, the finance cost element shall not be separated from the purchase figure for tax purpose. The whole invoice value shall be considered for tax purposes while the imputed interest element, if any, charged to statement of income is disallowed.</p>
3.0	CONSTRUCTION CONTRACTS (LKAS 11)	<p>3.1 Only the cost attributable to certified work done shall be allowed for tax purpose.</p> <p>3.2 Other receipts such as incentive payments would also be taxed accordingly.</p> <p>3.3 The expected loss recognized as an expense shall be disallowed until the loss is actually incurred.</p> <p>3.4 Any interest income earned using advance payment received shall be treated as separate source of income.</p>

No.	Accounting Standard Adopted	Adjustments/information required to be made or provided, for tax purposes
		<p>3.5 Retention of any payment is treated as receipt and shall be treated for taxation at the time of such retention.</p> <p>3.6 Future cost shall not be allowed for tax purpose until incurred.</p>
4.0	INCOME TAXES (LKAS 12)	All deferred tax disclosures shall be furnished as per the standard.
5.0	PROPERTY, PLANT AND EQUIPMENT (PPE) (LKAS 16)	<p>5.1 Allowance for depreciation claimed in error for tax purposes on land in prior periods, shall be adjusted.</p> <p>5.2 Separation of historical cost of the land and building shall be at the proportion of the current market value of the land and building. A schedule on apportionment of cost between Land and Building shall be provided.</p> <p>5.3 Capitalized cost of Property, Plant and Equipment (PPE) shall be on the basis of the invoice value. In line with this, the imputed interest charged as finance cost in the Statement of Comprehensive Income (SOCi) should be disallowed. The details of the imputed interest included in the cost of asset shall be furnished for necessary adjustments.</p> <p>5.4 Cost of staff directly attributable to the construction or acquisition of the PPE shall be allowed for inclusion in the cost of the PPE. The schedule of such attributable staff cost shall be provided.</p> <p>5.5 Provisions/estimates of cost of abandonment, dismantling, removing of item of Property, Plant and Equipment (PPE) and site restoration shall not be allowed for tax purpose unless such cost is incurred.</p> <p>5.6 In a situation of a revaluation of an asset:</p> <p>(a) Cost of acquisition is the basis of allowance for depreciation.</p> <p>(b) Professional fees and valuation expenses relating to revaluation of Property, Plant and Equipment (PPE) shall not be allowed for tax purposes. These expenses should be separately disclosed.</p> <p>5.7 In the case of Componentization:</p> <p>(a) Allowance for depreciation will be allowed without taking into account the componentization of the Property, Plant and Equipment (PPE). Schedule on adjusted depreciation shall be provided.</p> <p>(b) Reconciliation between the total cost of PPE under Sri Lanka Accounting Standards (SLAS), and componentized cost of same Property, Plant and Equipment (PPE) under SLFRS shall be provided by first time adopters.</p>

<i>No.</i>	<i>Accounting Standard Adopted</i>	<i>Adjustments/information required to be made or provided, for tax purposes</i>
		5.8 Stock of spare parts and consumables shall continue to be treated as inventory and the cost should be charged when consumed.
6.0	LEASES (LKAS 17)	<p>6.1 For the purposes of taxation, the legal form of the lease facility or transaction will be taken in to account.</p> <p>6.2 In compliance with Lanka Accounting Standards (LKAS), reclassification of lease assets, there could be a situation whereby an operating lease becomes a finance lease or vice versa, even where two parties has correctly applied the old principle. From the year of assessment in which reclassification is effected, such lease will be treated on the same basis for the balance period.</p> <p>6.3 Where there are errors in compliance with previous standards on leases, the tax consequences resulting from the errors shall be adjusted for accordingly.</p> <p>6.4 The lease rental payments to be allowed for tax purposes shall be the amount, incurred and paid subject to the restriction specified in Section 26.</p>
7.0	REVENUE (LKAS 18)	<p>7.1 In the case of deferred consideration, where imputed interest is embedded in sales revenue (broken down into sales and finance income portion), the entire value on the invoice shall be taken in to account.</p> <p>7.2 The components of deferred consideration shall be provided.</p> <p>7.3 The turnover subject to tax treatment under a loyalty program shall be the payments made for both the consumed and deferred portion of the services. Revenue shall be recognized for tax purposes at the point of realization of revenue.</p> <p>7.4 Where there is exchange of dissimilar goods, the revenue shall separately be treated for tax purposes. The cost of the new issue of goods shall be the market value of the old goods received plus any cash consideration included in the exchange.</p> <p>7.5 Free issue of goods and/or services should be considered for tax purposes at the point of realization of revenue. Corresponding cost of free issues will be deductible as an expense.</p>

<i>No.</i>	<i>Accounting Standard Adopted</i>	<i>Adjustments/information required to be made or provided, for tax purposes</i>
8.0	EMPLOYEE BENEFITS (LKAS 19)	<p>8.1 Profit sharing plans shall be allowed for tax purposes, if the basis for its computation has been approved by the Commissioner General or under his authority in advance.</p> <p>8.2 Any provisions or actuarial valuations charged to Statement of Comprehensive Income (SOCI) shall be disregarded for tax purposes.</p> <p>8.3 Interest Free Loans: Benefit on free or concessionary rate of interest shall be taxed. For this purpose, the interest to be taxed will be on the basis of the effective interest rate (EIR) as disclosed in the Financial Statement.</p> <p>8.4 The benefit associated with other short term employee benefits (e.g. complimentary goods/services, reduced prices, auctioned assets at below carrying cost etc.) shall be treated as benefit in kind to employees and treated for tax purposes.</p>
9.0	GOVERNMENT GRANTS AND ASSISTANCE (LKAS 20)	<p>9.1 Government grants, assistance, subsidies etc. should be treated for tax purposes subject to the exemption provided.</p> <p>9.2 Where a capital asset is acquired utilizing the aforesaid grant other than exempt grant, allowance for depreciation on the value of such asset shall be allowed under the respective provisions.</p>
10.0	THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES (LKAS 21)	<p>10.1 Financial statements submitted for tax purposes should be presented in terms of Sri Lankan Rupees.</p> <p>10.2 Exchange rate difference arising on conversion of monetary items which are in capital in nature shall not be taxed and any loss shall not be allowed.</p> <p>10.3 Any form of unrealized gains or losses arising from foreign currency conversion of current assets and liabilities shall be taxed or allowed for deduction.</p> <p>10.4 Reconciliation of exchange differences posted to Income Statement shall be provided.</p> <p>10.5 Exchange difference accumulated in the Other Comprehensive Income (OCI) in respect of disposal of a foreign operation, is a capital item and shall be disregarded. For tax purposes, the gain or loss on such disposal of foreign operation shall be treated in accordance with respective provisions.</p>

<i>No.</i>	<i>Accounting Standard Adopted</i>	<i>Adjustments/information required to be made or provided, for tax purposes</i>
11.0	BORROWING COSTS (LKAS 23)	Allowance for depreciation shall be continued to be claimed where the borrowing cost is capitalized, on the cost of the asset including such borrowing cost, provided that deduction under Section 32 shall not be made in relation to any part of such cost. Reconciliation of such borrowing cost shall be provided.
12.0	RETIREMENT BENEFIT FUNDS OR PLANS (LKAS 26)	Any actuarial gain or loss charged to the Other Comprehensive Income (OCI) shall not be taken in to tax purpose.
13.0	IMPAIRMENT OF ASSETS (LKAS 36)	<p>13.1 All impairment losses and gains on reversal charged to the Statement of Comprehensive Income (SOCI) shall be disregarded for tax purposes.</p> <p>13.2 The grant of allowance for depreciation will be on the basis of cost of acquisition/construction.</p> <p>13.3 Entities shall furnish a schedule containing detail computation of impairment losses including any gain on re-valued assets charged to the Statement of Income or Other Comprehensive Income (OCI), as the case may be</p>
14.0	INVESTMENT PROPERTY (LKAS 40)	<p>14.1 The rationale used in apportioning or separating the cost of land and building with certified valuer's report shall be furnished by the entity.</p> <p>14.2 Gain or loss that may be charged to the Statement of Comprehensive Income on Investment Property measured at fair value shall be disregard.</p> <p>14.3 A schedule of Investment Property shall be accompanied with the tax return.</p> <p>14.4 All assets other than land reclassified and/or recognized as Investment Property (IP) from Property, Plant and Equipment (PPE) shall be transferred at their Tax Written Down Value (TWDV) to IP and shall continue to be entitled for allowance for depreciation.</p> <p>14.5 Any entity engaged in both investment property and trading in properties shall segment the businesses and report them accordingly.</p>
15.0	SHARE BASED PAYMENTS (SLFRS 2)	<p>15.1 As for the standard, goods/services are to be recognized at the current market value and the impact on shareholders fund shall be shown.</p> <p>15.2 The share option cost charged to the Statement of Comprehensive Income (SOCI) shall be allowed in the hands of the employer at the point of allotment, to the extent of the amount considered as benefit to the employee.</p>

No.	Accounting Standard Adopted	Adjustments/information required to be made or provided, for tax purposes
16.0	BUSINESS COMBINATIONS (SLFRS 3)	<p>16.1 Gains arising from disposal of a Cash Generating Unit (CGU) with goodwill component is not liable to tax unless specifically provided under any other provisions.</p> <p>16.2 Gains on bargain purchase charged to Income Statement or Statement of Other Comprehensive Income (OCI) shall not be liable for tax purposes.</p> <p>16.3 Gains or losses arising from contingent consideration charged to Statement of Comprehensive Income (OCI) shall not be liable for tax.</p>
17.0	NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERA TIONS (SLFRS 5)	<p>Allowance for depreciation on any asset classified as “held for sale” under SLFRS shall be suspended until it is reclassified.</p>
18.0	FINANCIAL INSTRUMENTS (SLFRS 7, SLFRS 9, LKAS 32 AND LKAS 39)	<p>18.1 Fair Value Through Profit or Loss (FVTPL) - For financial assets on revenue account classified at “Fair Value through Profit or Loss”, any gain or loss recognized in the Statement of Comprehensive Income will be taxed or allowed a deduction even though unrealized.</p> <p>18.2 Held to Maturity Investments - For financial assets classified as “Held to Maturity”, interest income will be calculated using the Effective Interest Rate (EIR) method shall be followed. In cases where re-classification from held to maturity to available for sale categories occurs, the difference between its carrying amount and fair value shall be accounted for in accordance with paragraph 18.4. This treatment shall be accepted for tax purpose.</p> <p>18.3 Loans and Receivables - Interest income shall be calculated using EIR method. In the case of re-schedulement of “Loans and Receivables”, the difference between the new loan value and, the current loan and receivable value is adjusted to the Statement of Comprehensive Income (SOCI) immediately, and income is continued to be recorded on initial EIR. This treatment shall be acceptable for tax purposes.</p> <p>18.4 Available for Sale (AFS) - For Financial assets on revenue account classified as “available for sale”, any gains or losses recognized in the Other Comprehensive Income Statement will not be taxed or allowed a deduction. When such assets are derecognized and/or disposed, the cumulative gains or losses transferred to the income statement will be taxed or allowed a deduction.</p>

No.	Accounting Standard Adopted	Adjustments/information required to be made or provided, for tax purposes
		<p>18.5 All transaction costs incurred on Financial Instruments classified as “Loans and Receivables” and “Held-to-Maturity” shall be treated as part of the cost of the instrument.</p> <p>18.6 Transaction cost on assets classified as “Fair Value Through Profit or Loss” (FVTPL) and “Available for Sale Assets” (AFS) will be allowed as and when incurred.</p> <p>18.7 Withholding Tax (WHT) will apply on interest expense on contractual basis.</p> <p>18.8 Preference Shares are recognized based on legal form of the instrument. Accordingly, return on preference shares shall be treated as dividend, for tax purposes.</p> <p>18.9 Any adjustment arising upon individually significant impairment or collective impairment shall not be allowed for tax purposes, unless proved to the satisfaction of the Commissioner General on the basis of present treatment of doubtful debts. Any reversal of impairment is taxed to the extent it was allowed previously.</p>
19.0	Additional Schedules required to be furnished	<p>The following additional schedules or details shall be furnished with Tax Computation.</p> <p>However, if any of the schedules or details stated below is required to be furnished with the audited financial statements, then such schedule or detail is not required to be submitted separately, and the reference to such statements would be sufficient.</p> <p>19.1 SLFRS - 1</p> <p>a. Reconciliation of opening balances (Regulation 1.1).</p> <p>b. Schedule of first time adoption expenses (Regulations 1.2).</p> <p>c. Additional tax/refund position of the first year of adoption (Regulation 1.3).</p> <p>19.2 LKAS - 12</p> <p>All deferred tax disclosures as per the standard (Regulation 4.0).</p>

No.	Accounting Standard Adopted	Adjustments/information required to be made or provided, for tax purposes
		<p>19.3 LKAS - 16</p> <p><i>a.</i> The schedule of apportionment of cost between Land and Building (Regulation 5.2).</p> <p><i>b.</i> The details of the imputed interest included in the cost of assets (Regulation 5.3).</p> <p><i>c.</i> Schedule of staff cost attributable to PPE (Regulation 5.4).</p> <p><i>d.</i> Professional fees and valuation expenses relating to revaluation of PPE (Regulation 5.6(b)).</p> <p><i>e.</i> Schedule of adjusted allowance for depreciation (Regulation 5.7 (a)).</p> <p><i>f.</i> The reconciliation between the total cost of PPE under SLAS and componentized cost of same PPE under SLRS for first time adaptors (Regulation 5.7(b)).</p>
		<p>19.4 LKAS - 18</p> <p>Statement of components of differed consideration (Regulation 7.2).</p>
		<p>19.5 LKAS - 21</p> <p>Statement on reconciliation of exchange difference posted to income statement (Regulation 10.4).</p>
		<p>19.6 LKAS - 23</p> <p>Reconciliation of interest capitalized on each asset (Regulation 11.0).</p>
		<p>19.7 LKAS - 36</p> <p>Schedule containing detail computation of impairment losses including any gain on re-valued assets charged to the Statement of Income or Other Comprehensive Income as the case may be (Regulation 13.3).</p>
		<p>19.8 LKAS - 40</p> <p><i>(a).</i> Rational used in a apportioning and or separating cost of land from building with certified valuer's report (Regulation 14.1).</p> <p><i>(b)</i> A schedule of Investment Properties (Regulation 14.3).</p>