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EXTRAORDINARY

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PART I : SECTION (I) — GENERAL

Government Notifications

INLAND REVENUE ACT, NO. 24 OF 2017

Guidelines under Section 57 of the Inland Revenue (Amendment) Act, No. 10 of 2021

BY virtue of the powers vested in me under Section 57 of the Inland Revenue (Amendment) Act, No. 10 of 2021 which amends the Inland Revenue Act, No. 24 of 2017, I, Herath Mudiyanse Wajaya Chandrathilaka Bandara, Commissioner General of Inland Revenue, do by this notification, specify the guidelines for the computation of income tax payable by individuals, partnerships and persons other than individuals and partnerships for the year of assessment ending on March 31st 2020 (2019/2020), as set out in SCHEDULE 1, SCHEDULE 2 and SCHEDULE 3 respectively hereto.

HERATH MUDIYANSELAGE WIJAYA CHANDRATHILAKA BANDARA,
Commissioner General of Inland Revenue.

Inland Revenue Department,
Colombo 02,

SCHEDULE 1

GUIDELINE FOR THE COMPUTATION OF INCOME TAX PAYABLE BY INDIVIDUALS

(1) Apportionment of assessable income

An individual should apportion the employment income, business income, investment income or other income for the period from 01.04.2019 to 31.12.2019 (hereinafter referred to as the “First Period” in the guidelines) and for the period



from 01.01.2020 to 31.03.2020 (hereinafter referred to as the “Second Period” in the guidelines) as specified in subparagraph (a) of paragraph (3) of this SCHEDULE.

(2) Entitlement of reliefs and qualifying payments

(a) Reliefs

An individual is entitled to deduct following reliefs provided under paragraph 2 of the Fifth Schedule to the Inland Revenue Act, No. 24 of 2017 (hereinafter referred to as the “IRA” in the guidelines).

- (i) Relief granted under subparagraph (a) of paragraph 2 of Fifth Schedule (Personal relief) to the IRA, is Rs. 1,125,000 $[(500,000 \times 9/12) + (3,000,000 \times 3/12)]$ for the year of assessment 2019/2020 up to the aggregate assessable income (except gains from the realization of investment assets) of the year of assessment.
- (ii) Relief granted under subparagraph (b) of paragraph 2 of the Fifth Schedule (Employment Relief) to the IRA is Rs. 525,000 $(700,000 \times 9/12)$ up to December 31, 2019 which could be deducted up to the total of the individual’s employment income for the year of assessment 2019/2020.
- (iii) Relief granted under subparagraph (c) of paragraph 2 of the Fifth Schedule (Rent Relief) to the IRA – 25% of the total rental income for the year of assessment 2019/2020.
- (iv) If an individual is a senior citizen, relief granted under subparagraph (d) of paragraph 2 of the Fifth Schedule (Senior Citizen Interest Relief) to the IRA -Rs. 1,500,000 for a year of assessment, up to the total of the individual’s interest income from financial institutions derived and deemed as derived for the period up to 31 December 2019.
- (v) If a resident individual or partner of a partnership earned income from foreign currency and qualified for the relief under subparagraph (e) of paragraph 2 of the Fifth Schedule (Foreign Service relief) to the IRA, Rs.15,000,000 for a year of assessment, up to the total of such income for the period up to 31 December 2019.
- (vi) Relief granted under subparagraph (f) of paragraph 2 of the Fifth Schedule (Expenditure Relief) to the IRA - Rs. 300,000 up to the total sum on following specific expenditure incurred for the Second Period
 - Health expenditure including the contributions to medical insurance;
 - vocational education or other educational expenditure incurred locally by such individual for himself or such individual’s children;
 - Interest paid on housing loans;
 - contributions made to any local pension scheme, other than for a scheme under the employer or on behalf of the employer, by an employee;
 - expenditure incurred for the purchase of shares or any other financial instrument listed in the Colombo Stock Exchange and licensed by the Securities and Exchange Commission of Sri Lanka or treasury bonds under the Registered Stocks and Securities Ordinance (Chapter 420) or treasury bills under the Local Treasury Bills Ordinance (Chapter 417);

Above aggregate reliefs are deductible in arriving at the taxable income of an individual who is resident in Sri Lanka for the year of assessment 2019/2020 subject to the provisions of the IRA. However, non-resident individuals but citizens in Sri Lanka can deduct the personal relief mentioned under above item(i) in arriving at the taxable income of such individual.

(b) Qualifying payments

- (i) Donations made in money to an approved charitable institution - subject to the amount of one fourth of the total assessable income (one third of the taxable income) or Rs. 75,000 or amount donated, whichever is less.
- (ii) Donations made in money or otherwise to the Government or any specified institutions in the Fifth Schedule to the IRA.
- (iii) Any un-deducted balance of any qualifying payment brought forward from the previous year of assessment according to the Inland Revenue Act, No. 10 of 2006.

In calculating the taxable income of an individual, entitled reliefs and qualifying payments can be deducted relevant to the First Period and the Second Period as specified in subparagraph (b) of paragraph 3.

(3) Calculation of income tax payable

(a) Apportioning the assessable income

- i. Employment income shall be apportioned on the actual basis for the First Period and for the Second Period (Gross Remuneration in accordance with certificate of Income Tax Deductions -T.10 form).
- ii. Interest income shall be apportioned on
 - (iia) the actual amount for respective First and Second Periods; or
 - (iib) pro-rata basis as 3/4th of total interest income to the First Period and 1/4th of total interest income to the Second Period; or
 - (iic) in the case of a Senior Citizen, if any interest income apportioned under item (iib) in the First Period is less than Rs. 1,500,000, then the interest amount to be allocated to the First Period shall be the actual amount received for the year of assessment (First Period and second Period) or Rs. 1,500,000, whichever is less, and the balance, if any, shall be allocated to the Second Period.
- iii. Dividend, rent and other investment income or other income shall be apportioned on actual basis.
- iv. Business income should be apportioned on pro-rata basis based on the time period as 3/4th of total business income to the First Period and 1/4th of total business income to the Second Period. If an individual received or derived any amounts which are exempted as per the amendments provided in the Inland Revenue (Amendment) Act, No.10 of 2021 for the Second Period, 1/4th of the total amounts received or derived during the year from such source can be excluded as exempted amount and the balance, 3/4th of the total amount, should be recognized for the First Period. Expenditures and related deductions which would be deductible from such exempted amounts and disallowable under Section 10(1)(b)(iv) of the IRA, should be identified by pro-rating such total expenditures and deductions based on the time period (3/4th for the First Period and 1/4th for the Second Period).

(b) Deduction of reliefs and qualifying payments;

- i. Employment relief shall be deducted from the employment income relevant to the First Period first and if there is any un-deducted relief such part can be deducted from the employment income relevant to the Second Period.
- ii. Interest relief on interest derived by a senior citizen, Rs. 1,500,000, can be deducted only in the First Period.

- iii. Foreign Services relief on foreign service income, Rs. 15,000,000, can be deducted only in the First Period.
- iv. Rent relief of 25% on total rent income can be deducted from the relevant rent income for each Period.
- v. Expenditure relief can be deducted only in the Second Period.
- vi. Personnel relief of Rs. 1,125,000 can be deducted for the year of assessment 2019/2020. However, Rs. 375,000 and Rs. 750,000 relevant to the First Period and to the Second Period respectively shall be deducted from the relevant part of the assessable income. If there is any un-deducted relief, such part can be deducted from the balance assessable income of the other Period.

However,

- (via) Un-deducted Personal relief relevant to the Second Period shall not be deducted from the employment income in which withholding tax on employment income (PAYE) has already been deducted.
- (vib) If the relief is not deductible due to the income considered as final withholding payment during the First Period, or income considered as exempt for the Second Period, then the non-deductible relief must be ignored.
- vii. In arriving at the taxable income, qualifying payments can be deducted from any period. Total assessable income can be calculated by aggregating the assessable income after deducting the entitled reliefs over the two periods
- (c) Apply the income tax rates separately as for the First Period and for the Second Period
- (d) Income tax payable amount shall be calculated by applying the applicable tax rates (Paragraph 5) for the relevant two periods.

(4) Refunds and Payable Amounts due to the Deduction of Aggregate Reliefs

If the tax for the First Period has been correctly calculated in accordance with the law prevailed for the First Period, any refundable amount or payable amount that would be arisen for the First Period due to the deduction of aggregate relief of Rs 1,650,000 (525,000 + 1,125,000) for the whole year of assessment, shall be disregarded.

5) Applicable Tax Rates to Resident and Non-Resident individual

(a) Normal rates

i. First Period

<i>Taxable Income</i>	<i>Tax Rate</i>
On the First 450,000	4%
On the Next 450,000	8%
On the Next 450,000	12%
On the Next 450,000	16%
On the Next 450,000	20%
On the Balance	24%

ii. Second Period

<i>Taxable Income</i>	<i>Tax Rate</i>
On the First 750,000	6%
On the Next 750,000	12%
On the Balance	18%

(b) Special rates

For the Year of Assessment 2019/2020

Tax on income from a business consisting of betting and gaming, manufacture and sale or import and sale of liquor or tobacco product - 40%

SCHEDULE 2

GUIDELINE FOR THE COMPUTATION OF INCOME TAX PAYABLE BY PARTNERSHIPS

- (1) A Partnership shall be liable to pay income tax in respect of its taxable income (including any gains from the realization of any investment assets) with effect from 01.01.2020. However, the computation and payment of Income Tax Liability on the realization of any investment asset of the partnership for the year of assessment shall be made as provided in the IRA (No changes to the respective provisions have been made).
- (2) Subject to the condition given under paragraph 3, all partnerships are required to compute its assessable income (other than any gains from the realization of any investment assets) for the year of assessment and should apportion the same between the two periods as for the First Period and for the Second Period according to the pro-rata basis based on the time period (3/4th to the First Period and 1/4th to the Second Period).

However, if the partnership received or derived any amounts which are exempted as per the amendments provided in the Inland Revenue (Amendment) Act, No.10 of 2021 for the Second Period, 1/4th of the total amounts received or derived during the year from such source can be excluded as exempted amount and the balance, 3/4th of the total amount, should be recognized for the First Period. Expenditures and related deductions which would be deductible from such exempted amounts and disallowable under Section 10(1)(b)(iv) of the IRA, should be identified by pro-rating such total expenditures and deductions based on the time period (3/4th for the First Period and 1/4th for the Second Period).

- (3) If the partners of the partnership are individuals, then partnerships are allowed to exclude the actual interest and actual dividend received or derived during the First Period as final withholding payments. In such a situation, actual interest and actual dividend received or derived during the Second Period is not required to apportion over the two periods, but should be recognized for the taxable income of the partnership for the Second Period. It is required to follow the guideline in SCHEDULE 1 for the purpose of including partner's share (total share of interest or dividend for the year of assessment) of such income in calculating the tax payable by the individual partners.

If the partners of the partnership are companies, then above instructions (given under paragraph 3 above) can be applied only for the dividend.

- (4) Subject to the provisions of the IRA, the partnership is entitled to deduct any qualifying payments made during the Second Period in computing its taxable income.

- (5) Income Tax Payable on taxable income (other than any gains from the realization of any investment assets) of the partnership (for second period) shall be calculated by applying the relevant tax rates set out below.

<i>Taxable Income</i>	<i>Tax Rate</i>
First 250,000	0
Balance	6 %

- (6) If the partnership has allocated any share of partnership income to its partners during the First Period, Withholding Tax shall be paid as provided by Section 84(1)(a)(ii) of the IRA on such allocated amounts (such Withholding Tax shall be paid as provided in Section 86 of the IRA and late payments are resulting to impose interest or penalty). If not, for the purpose of the IRA, the allocation occurs as at the end of the Year of Assessment and no withholding tax liability will be attached with such share of partnership income.
- (7) Subject to the condition stated in paragraph 3 above, in calculating the income tax liability of a partner in a partnership, the partner's share of any partnership income (including loss) and any share of qualifying payments shall be included or deducted; as the case may be; and the taxable income of the partner shall be computed separately for the two periods of the year of assessment. Non final withholding taxes (including partnership withholding tax paid if any) or any tax credit entitled by the partner during the First Period can be deducted from the respective income tax liability and a refund can be claimed (subject to the respective provisions of the IRA before the amendments) if any on such tax credits. Income tax paid by the partnership as an installment for the taxable income of the partnership will be allocated to the partners according to the share of partnership income of the Second Period and be treated as a tax credit to the partner in a partnership. If there is any excess tax credit after the deduction of share of income tax paid by the partnership in computing the income tax payable by the partner, no refund shall be made but such excess income tax credit is allowable to carry forward by the partner.

SCHEDULE 3

GUIDELINE FOR THE COMPUTATION OF INCOME TAX PAYABLE BY PERSONS OTHER THAN INDIVIDUALS AND PARTNERSHIPS

- (1) For the purpose of following instructions, Company includes corporation, clubs/association, Non-Governmental Organizations, Charitable Institutions, Funds, Trusts or Unit Trusts and entities other than partnerships.
- (2) Company shall compute the assessable income and taxable income for the year of assessment without separating in to two periods of First period and Second Period.
- (3) If the company received or derived any amounts which are exempted as per the amendments provided in the Inland Revenue (Amendment) Act, No.10 of 2021 for the Second Period, 1/4th of the total amounts received or derived during the year from such source can be excluded as exempted amount in arriving at the taxable income for the year of assessment. The balance amount (tax adjusted gains and profits) in relation to such part of source (3/4th of the total amounts of the year) can be recognized for the First Period. Actual dividend income received or derived during the First Period shall also be excluded as a final withholding payment. Expenditures and related deductions which would be deductible from such exempted amounts or from final withholding payments and disallowable under Section 10(1)(b)(iv) of the IRA, should be identified by pro-rating such total expenditures and deductions based on the time period (3/4th for the First Period and 1/4th for the Second Period).
- (4) Taxable income computed as per the instruction given under paragraph 3 is required to apportion over the two periods by applying the pro-rata basis based on the time period. However, actual dividend income received or derived

during the Second Period is not required to apportion over the two periods but should be recognized for the taxable income of the Second Period.

- (5) If there is a loss from business or a particular investment, a company shall compute its assessable income or loss separately (notwithstanding the guidelines provided under paragraph 2, 3 and 4) for each businesses or investment; as the case may be; for the purpose of deducting relevant losses as provided by section 19 of the IRA. In such a situation, business income, investment income or loss from each activity should be apportioned on the pro-rata basis based on time as $\frac{3}{4}$ th for the First Period and $\frac{1}{4}$ th for the Second Period. Total assessable income shall be computed separately for two periods by deducting the allowable losses subject to the provisions of the IRA. Taxable income shall also be computed separately to apply the income tax rates appropriately in computing the income tax payable.
- (6) Income tax payable by the company for its taxable income shall separately be calculated for two periods by applying the relevant rates of income tax. Accordingly, Income tax rates as per the IRA prior to the amendment should be applied for the First Period and income tax rates set out in the Inland Revenue (Amendment) Act, No. 10 of 2021 should be applied for the Second Period.
- (7) For applying the special tax rates set out in item (b), (c), (e), (f) and (g) of subparagraph 2 of Paragraph 4 of the First Schedule of the IRA for the First Period, required base of “predominance” shall be calculated based on the actual gross income of the First Period.
- (8) Subject to the provisions of the IRA, foreign tax credit, non-final withholding tax credit and other tax credits granted or allowed can be deducted from the amount of total tax payable to calculate the income tax payable by the company for the year of assessment 2019/2020.
- (9) If any company received the Commissioner-General’s approval to submit accounts based on an alternative period of twelve months other than from April 01, 2019 to March 31, 2020 and to be used to compute the income tax payable for year of assessment 2019/2020, above instructions can appropriately be applied for the relevant two periods of the accounts as for the period prior to 01.01.2020 (First Period) and for the period on or after 01.01.2020 (Second Period). Therefore, the First Period is the number of months from the commencing date of the accounting year to 31.12.2019 and the Second Period is the number of months from 01.01.2020 to ending date of the accounting year.
- (10) Charitable Institutions are allowed to exclude the actual interest income received or derived during the First Period as a final withholding payment. The expenditures and related deductions which would be deductible from such final withholding payments and disallowable amounts under Section 10(1)(b)(iv) of the IRA, should be identified by pro-rating such total expenditures and deductions based on the time period ($\frac{3}{4}$ th for the First Period and $\frac{1}{4}$ th for the Second Period). Actual interest income received or derived during the Second Period is not required to apportion over the two periods but should be recognized for the taxable income of the Second Period.