CORPORATE AND PERSONAL TAXATION

Subject No: 304

Updates for the
Year of Assessment 2024/2025

This supplementary can be used
only with CPT book printed in April 2024 (Seventh Edition)

IMPORTANT

Please note that the year of assessment tested for the forthcoming examinations under the new syllabus will be as follows;

Examination		Year of Assessment (Y/A)
2025 - July Exam	-	2024/2025
2026 - January Exam	-	2024/2025

Published by:
Association of Accounting Technicians of Sri Lanka

Chapter 01 | Introduction to Taxation of Sri Lanka

-Page 11-

Determination of Residency for Taxatio

Table should be as follows:

Arrival	Departure	Days present in Sri Lanka
03.04.2024	21.05.2024	48
04.06.2024	30.07.2024	56
15.09.2024	14.11.2024	60
01.12.2024	22.12.2024	21
Total		**185**

As per the above data during the year of assessment 2024/25 he has physically spent 185 days in Sri Lanka & hence he is a resident in Sri Lanka for tax purposes for that year of assessment.

Chapter 02 | Sources of Income

-Page 21-

2.1.3 Value of Benefits

2nd paragraph should be as follows;

Values specified for Non-Cash Benefits w.e.f. 01.04.2023 are as follows; (As per - Circular dated 06.04.2023)

-Page 32-

2.2.5.4.1 Interest Expenses (Section 12)

a) should be amended as follows;

a) The borrowed money was used during the year or was used to acquire an asset that is used during the year in the production of income; and

-Page 32-

2.2.5.4.1 Interest Expenses (Section 12)

Example should be amended as follows;

Mr.Nimal is carrying on a business of selling computer accessories. He obtained a bank loan and utilised the loan proceeds as follows during the year 23/24.

50% for construction of new office building.

25% for payment of salaries to the staff.

25% for his private purposes.

During the year of assessment 2023/2024, he paid Rs. 300,000 as interest for the loan. During the year of assessment 2024/2025 he sold the office building and loan interest and for the year is Rs. 250,000.

During the year of assessment 2023/2024, under Section 12(a) Mr. Nimal is entitled for a deduction amounting to Rs. 150,000 (50% of the Loan interest) paid as interest on the funds used to construct the new office building as it is an asset used during the year. Similarly, (sec. 12)

-Page 33-

Example should be amended as follows;

Company B is a garment factory and incurs interest expense amounting to Rs. 2,500,000 during the year of assessment 2024/25. Balance Sheet of the company as at 31.03.2025 revealed as follows.

Stated Capital	5,000,000
Reserves	2,000,000
Long Term Loans	30,000,000

Finance Cost attributable to financial instruments = (Rs. 2,500,000/Rs. 30,000,000) X [(Rs. 5,000,000 + Rs. 2,000,000) X 4] = 2,333,333

Finance Cost allowable to deduct in Y/A 2024/25 = Rs. 2,500,000.

-Page 34-

2.2.5.4.4 Research & Development cost (Section 15)

The following paragraph has been removed.

Further, under sixth schedule, a person is entitled for an additional deduction which is equal to the 100% of the total amount of research and development expenses during the period of 5 years after 01.04.2018 as a temporary concession. According this consession is not applicable for YA 2023/24.

-Page 34-

Example

Year of assessment should be 2024 / 25.

-Page 39-

Example

Amended as follows;

Consider the above example and there will be an improvement amounting to Rs.400,000/- in the Year of Assessment 2024/2025.

The cost of improvement and depreciation allowance deductible under section 14 and 16 respectively are as follows;

During the year of assessment -2024/2025, the Cost of improvement	Rs.	400,000
Written down value of the Asset as at the end of previous year (i.e. 23/24)	Rs.	600,000
Allowable improvement cost (600,000 x 20%)	Rs.	120,000
Excess improvement cost to be added to the depreciable basis	Rs.	280,000

Capital allowance to be granted for the remaining Years of Assessment

Year of Assessment	Depreciation basis	No of Years	Depreciation for the year	Cumulative Depreciation
2021/2022	1,000,000	5	200,000	200,000
2022/2023	800,000	4	200,000	400,000
2023/2024	600,000	3	200,000	600,000
2024/2025	680,000	2	340,000	940,000
2025/2026	340,000	1	340,000	1,280,000

-Page 41-

2.2.5.4.10 Marketing and Communication Expenses

The following has been removed.

Any year of assessment commencing on or afterApril 01, 2021, in calculating a person's income from a business, marketing and communication expenses incurred by such person in the production of income during the year of assessment shall be deducted irrespective of whether they are of a capital nature or not.

1. "marketing and communication expenses" means, any expenses incurred by any person in-
   - (a) Carrying out a market research by such person or any institution in Sri Lanka on his behalf;
   - (b) The development or production of marketing, advertising and communication campaign to the extent that such development or production is carried out in Sri Lanka;
   - (c) Advertising on mainstream media or social media including television, radio, print or as outdoor advertising;
   - (d) Product launches or campaign activation carried out by such person or by any local institution on his behalf;

(e) Development and printing of point- of-sale material by such person or by any local institution on his behalf.

2. Subject to following conditions, a person shall be entitled to an additional deduction when calculating his income from business for a year of assessment, equal to 100% of the total amount of marketing and communication expenses deducted under section 15A during the three years of assessment commencing from April 1, 2021. Additional 100% deduction on Marketing and Communication expenses commencing from 01 April, 2021 has reduced to two years from three years and will end in the Y/A 2023/2024.

(a) The payment shall be made to a person who is not an associated person of the tax payer;

(b) Internal marketing expenses, salaries of marketing staff, expenditure on maintaining an internal marketing department, expenditure on corporate social responsibility initiatives and foreign travel expenses shall not be considered

(c) Expenditure shall be attributable to goods and services with 65% of local value addition, the mode of calculation of which shall be as specified by the Commissioner General;

(d) The total additional deduction shall not exceed Rs. 500,000,000 in any year of assessment;

(e) The Commissioner-General shall specify the requirements to maintain records, source documents and underlying documents.

Gazzette notification 2258/18 dated 14.02.2021 has been issued in this regard.

-Page 46-

2.3.10 Realization of Investment Assets (Capital gains)

The following "Note" has been included.

Note: Budget 2025 proposed to increase individual and OH rate 15%

-Page 48-

Example

First paragraph should be as follows;

Mr. X purchased a land for Rs 3,500,000 on 12.12.2015 and hold as his investment. The land and building value as at 30.09.2017 was Rs 4,000,000. X sold asset for Rs 6,000,000 on 01.05.2024 and incurred the following expenditure before the sale.

Chapter 03 | Taxation of Individuals & Companies (Resident)

-Page 57-

3.2.2. Conditions in claiming qualifying payments

Following paragraph should be added after point (a);

By Inland Revenue Amendment Act No. 02 of 2025 personal relief has been increased to Rs. 1 800 000 w.e.f. 01.04.2025.

-Page 57-

Question 01

Year of assessment Should be 2024/25

-Page 58-

Question 02

Year of assessment Should be 2024/25

-Page 58-

Answer 02

Year of assessment Should be 2024/25

-Page 58-

Question 03

Year of assessment Should be 2024/25

-Page 59-

Question 04

Year of assessment Should be 2024/25

-Page 59-

Question 05

Year of assessment Should be 2024/25

-Page 59-

Answer 05

Year of assessment Should be 2024/25

-Page 60-

3.3.1.1 Tax rates for resident and non-resident individuals

After the table following should be added.

As per Inland Revenue Amendment Act following rates are applicable w.e.f. 01.04.2025

Taxable income	Rate
First 1,000,000	6%
Next 500,000	18%
Next 500,000	24%
Next 500,000	30%
Balance	36%

-Page 60-

3.3.2.1 Gains from realization of investment assets -10%

Following new sub topic should be added after 3.3.2.2

Budget 2025 proposed to increased to 15%.

3.3.2.3 As per IR amendment Act No. 02 of 2025

Following business income are taxable at a maximum of 15% w.e.f 01.04.2025.

1. Gains and profits from services rendered in or outside Sri Lanka to any person outside Sri Lanka where payment is received in foreign currency and remitted through a bank to Sri Lanka.
2. Gains and profits earned from a foreign source where such gains and earned in foreign currency and remitted through a bank to Sri Lanka

-Page 61-

3.3.3. Higher tax rates applicable to individuals

Add following after the table

Note: w.e.f. 01.04.2025,

1. Foreign source income earned in Foreign currency and remitted to Sri Lanka through a bank 15%
2. Service income earned in Foreign currency and remitted to Sri Lanka through a bank. 15%

-Page 63-

3.5 Format of a tax computation for a person

Year of assessment should be 2024/25

-Page 68-

3.5 Format of a tax computation for a person

Following should be added to the end of (u) (ii)

But prior to 31.03.2025

-Page 68-

3.5 Format of a tax computation for a person

Following should be added to the end of (u) (iii)

But prior to 31.03.2025

-Page 68/69-

3.5 Format of a tax computation for a person

Following has been removed.

(w) Gains and profits received or derived from business (other than any gains from the realization of capital assets and liabilities of the business as calculated under Chapter IV of the IRA) by a person from following new undertakings (which is not formed by splitting-up or re-construction of an existing undertaking) commenced on or after April 1, 2021 but prior to 01.04.2023. Tax exemption can be claimed during the specified period subject to the stated conditions.

a) Ten-year tax exemption period for an undertaking which sells construction materials recycled in a selected separate site established in Sri Lanka to recycle the materials which were already used in the construction industry. (In any case, if recycled materials are used by the same person for construction services, this exemption can be claimed by deeming such materials as have been sold to the construction service business at market price)

b) Five-year tax exemption period for any business commenced on or after April 1, 2021, but prior to 01.04.2023 by an individual after successful completion of vocational education from any institution which is standardized under TVET concept and regulated by the Tertiary and Vocational Education Commission.

c) Seven-year tax exemption period for an undertaking commenced by a resident person in manufacturing of boats or ships in Sri Lanka and received or derived any gains and profits from the supply such boats or ships.

d) Seven-year tax exemption period for any “renewable energy project” established with a capacity to generate not less than one hundred Mega Watts solar or wind power and supplies such power to national grid.

e) Five-year tax exemption period for any undertaking commenced on or after January 1, 2021 but prior to 01.04.2023 by any resident person who constructs and installs the communication towers and related appliances using local labours and local raw materials in Sri Lanka or provide required technical services for such construction or installation.

f) Any undertaking for letting bonded warehouses or warehouses related to the offshore business in Colombo or Hambanthota ports, if such person has invested on such warehouses on or after April 1, 2021 but prior to 01.04.2023.

Tax exemption period provided in above item x [(a) to e)] shall be reckoned from the year of assessment in which the undertaking commences to make profits from transactions entered into in that year of assessment or from the commencement of the year of assessment immediately succeeding the year of assessment in which the undertaking completes a period of two years reckoned from the date on which the undertaking commences to carry on commercial operations, whichever occurs earlier.

-Page 69-

Following paragraph marked as (x)

(x) Remittance tax (at the rate of 14% on remitted profits) is not required to be paid by a non-resident company carrying on a business in Sri Lanka through a Sri Lankan permanent establishment which earns profits and income on or after April 1, 2021 and retained such total profits for minimum of three years period by investing in Sri Lanka to expand its business or to acquire shares or any securities from Colombo Stock Exchange or to acquire treasury bills, treasury bonds or Sri Lanka International sovereign bonds issued on behalf of the Government of Sri Lanka. The exemption is applicable on such retained and invested profit is remitted whenever after that three years.

-Page 71-

Question 06

Year of assessment should be 2024/25

-Page 72/73-

Question 07

Year of assessment should be 2024/25

-Page 74/75/76/77/78-

Question 08 and Answer 08

Should be as follows;

ABC (Pvt) Ltd is a company engaged in the manufacturing of shoes to local market. Total turnover from the trade for the year ended 31.03.2025 is Rs. 558 million and the equity capital of the company as at 31.03.2025 is Rs. 10,000,000 (share capital + Reserves). The income statement for the financial year ended 31.3.2025 and other related details are as follows.

Gross profit from Trade		42,300,000
Rent income		6,000,000
Dividend - net		1,720,000
Interest from 5 year treasury bonds		1,600,000
Loss from disposal of Motor lorry		(1,200,000)
		50,420,000
Less:		
Administration Expenses	28,800,000	
Distribution Expenses	5,380,000	
Financial Expenses	7,000,000	41,180,000
Net profit Before Tax		9,240,000

Details of the expenses;

Administration Expenses:		
Salaries and Wages	10,336,000	
Electricity	1,800,000	
Telephone	300,000	
Management fee	200,000	
EPF and ETF	1,045,000	
Rent	1,344,000	
Repairs and improvments	660,000	
Entertainment expenses	210,000	
Provision for Depreciation	4,745,000	
Audit fees	380,000	
Donation	1,000,000	
Office expenses	4,580,000	
Advertising		28,800,000
Distribution Expenses:		
Bad and doubtful debt	480,000	
Advertisement	90,000	

Vehicle Maintenances	210,000	
Travelling & transport	4,600,000	5,380,000
Finance Expenses:		
Interest paid on Bank loan obtained in Y/A 22/23, loan balance as at 31.03.2024 was Rs. 44,900,000.	6,000,000	
Interest paid on Lease	1,000,000	7,000,000

Additional Information

1. Rent Income
   The company has rented a part of its office building to another company. Currently, it does not need all the floor space but hopes to require it all in the near future.

2. Details of Property, Plant and Equipment

Cost

Asset Type	Balance as at 01st April 2024 (Rs.)	Additions (Rs.)	Disposals (Rs.)	Balance as at 31st March 2025 (Rs.)
Building	15,000,000	-	-	15,000,000
Machinery	21,000,000	3,675,000	-	24,675,000
Computers	1,450,000	120,000	-	1,570,000
Locally developed Software	500,000	-	-	500,000
Motor vehicles	6,650,000	8,400,000	(4,000,000)	11,050,000
Furniture	1,240,000	50,000	-	1,290,000
Intangible assets	-	2,000,000	-	2,000,000
Total	**45,840,000**	**14,245,000**	**(4,000,000)**	**56,085,000**

Accumulated Depreciation

Asset Type	Balance as at 01st April 2024 (Rs.)	Depreciation for the year (Rs.)	Disposals (Rs.)	Balance as at 31st March 2025 (Rs.)
Building	6,750,000	750,000	-	7,500,000
Machinery	9,750,000	1,252,000	-	11,002,000
Computers	1,015,000	170,000	-	1,185,000
Locally developed Software	300,000	100,000	-	400,000
Motor vehicles	3,542,000	2,337,000	(1,500,000)	4,379,000
Furniture	1,116,000	136,000	-	1,252,000
Intangible assets	-	400,000	-	400,000
Total	**22,473,000**	**5,145,000**	**(1,500,000)**	**26,118,000**

Year of assessments of below points should be corrected as follows.

Other points are remain unchanged.

3. A motor Lorry purchased in the year of assessment 2021/2022 has been disposed during the year for Rs. 1,300,000.
7. Assume all other assets as at 01.04.2024 were acquired/constructed during th year of assessment 2017/18.

Calculate the, Assessable income, Taxable income and Income tax payable by the company for the year of assessment 2024/2025.

Answer 08

Tax Computation for the Year of assessment 2024/25.

					+	-
					Rs.	Rs.
Profit before Tax					9,240,000	
Rent income						
Dividend - Investment Income						1,720,000
Interest from Treasury Bond - Investment Income						1,600,000
Accounting loss from disposal of lorry					1,200,000	
Balancing allowance from Motor lorry						
Profit/loss= 1,300,000-(4,000,000 – (4,000,000x20%x 3) = 1,300,000 – 1,600,000 loss = (300,000)						300,000
Accounting Depreciation					4,745,000	
Amortisation					400,000	
Capital Allowances	**Year of Aquired**	**cost**				
Building	17/18	15,000,000	10%			1,500,000
Machinery	17/18	21,000,000	33.33%	fully claimed		-
Machinery	24/25	3,675,000	5 years			735,000
Computers	17/18	1,450,000	25%	fully claimed		
Computers	24/25	120,000	5 years			24,000
Locally dev. Software	17/18	500,000	100%	fully claimed		0
Disposed Lorry	18/19	4,000,000	no CA			-
Vehicles - Balance	17/18	2,650,000	20%	fully claimed		
Leased lorry	24/25	6,400,000	5 years			1,280,000
Car	24/25	2,000,000	no CA			-
Furniture	17/18	1,240,000	20%	fully claimed		
Furniture	24/25	50,000	5 Years			10,000

Intangible asset	24/25	2,000,000	20 years			100,000
Repairs Rs.60,000- allowed					-	
Cost of construction - Capital Nature					600,000	
Improvement						
Tax written down value as at 31.03.2024				6,000,000		
	5% of WDV	300,000				
Actual cost		600,000				300,000
Gross Rent paid to manager's residence					504,000	
Monthly Remuneration of Sale Manager				170,000		
Housing benefit for Employment						
Provision for Bad and doubtful debt					280,000	
Written off - fully allowed					-	
Entertainment expenses - not allowed					210,000	
Advertising - allowance						
Donation					1,000,000	
Interest paid (application of section 18)						
Share Capital + Reserves				10,000,000		
A X B (B=4)			(10,000,000 x 4) = 40,000,000			
Interest paid				7,000,000		
Loan borrowed		44,900,000				
Lease capital (6,400,000 – 1,300,000)		5,100,000		50,000,000		
(assume no other creditors)						
Finance cost attributable to Financial Instruments			7/50 = 0.14			
Allowable amount = (A xB x attributable rate)		40,000,000 x 0.14		5,600,000		
Not allowable (C/F)		7,000,000-5,600,000			1,400,000	
Assume all other expenses incurred in production of Income and uncontrolled transactions.						
					19,579,000	7,569,000
Business Profit before adjusting losses					2,010,000	
less : B/F losses					(5,000,000)	
Business Income					7,010,000	
Investment Income - (note 1)					1,600,000	
Assessable Income					8,612,000	
Qualifying payments						
limited to 1/5 of TI or Rs. 500,000					(500,000)	
Taxable Income					8,112,000	
Tax liability 8,112,000 x 30% =					2,433,600	
Less - Tax Credits					-	
Balance Tax Payable					**2,433,600**	

-Page 79-

3.5 Transfer Pricing

Point (ii) should be as follows;

(ii) shall be deemed to be an associated enterprise of another person if one person participates directly or indirectly or through one or more intermediaries in the management, control or capital, in such manner or to such extent as may be specified (specified in gazette 2217/7 dated 02.03.2021) and includes a permanent establishment.

-Page 79-

3.5 Transfer Pricing

Year of assessment of the following paragraph should be 2021.

Regulations on transfer pricing have been published through Gazette notification 2217/7 dated 02.03.2021 and they are effective from 01.04.2020. These TP regulations will apply to all international transactions. However, in the case of domestic transactions, the TP provisions will be applicable only in the following cases;

Chapter 04 | axation of Miscellaneous Undertakings

-Page 87-

Question 01

Year of assessment should be 2024/25

-Page 89-

4.2.2.1.1 Taxation of trusts

Last paragraph should be as follows;

Trust should pay tax on Gains from realization of investment assets at 10% and at 30% (From Y/A 23/24) on other taxable income.

-Page 89/90-

Question 02

Year of assessment should be 2024/25
End line of the question should be corrected as follows;

...Varuni and Thanuja...

-Page 92-

4.4 Non-gpvernmental organizations (NGO)

(b) first point's year of assessment should be 2024/25

-Page 93-

Question 03

Year of assessment should be 2024/25

-Page 94-

Question 04

Year of assessment should be 2024/25

Chapter 05 | Obligations and Procedures

-Page 98-

Question 01

Question shoud be as this;

Sarath has estimated his tax liability for Y/A 24/25 as Rs. 900,000. He has paid Rs. 225,000 for 1st installment payment and AIT credits up to 15.11.2024 is Rs. 45,000.

Calculate tax to be paid for second quarterly installment payment.

State due date for the payment.

-Page 98-

Answer 01

Due date should be 15th November 2024

-Page 98-

5.1.2 Tax payable on assessment

Last point should be as follows;

Any other tax payable on assessment before end of six months from the end of relevant year of Assessment. (eg. for Y/A 2024/25 - 30.09.2025)

-Page 99-

5.2.1.1 Who shall furnish return of Income?

Second sentence should be amended as follows;

i.e. for Y/A 2024/25 return should be submitted on or before 30.11.2025.

-Page 99-

5.2.1.1 Who shall furnish return of Income?

1) a) ii. point's following part has been removed.

A return of income for a Y/A will not be required to be filed by an individual

-Page 100-

Question 02

Year of assessment should be 2024/25

-Page 100-

Answer 02

(i) answer should be amended as follows;

(i) Annual income tax return for the year of assessment 2024/25 should be furnished on before 30.11.2025.

-Page 108-

5.6 Refunds (Section 150)

04th point should be amended as follows;

- Prior to 01.04.2024, a refund or credit may be made only if the taxpayer applies for it within four years of the date of payment or, if made on the Commissioner-General's initiative, within the specified time period.

  w.e.f 01.04.2024, refund claim should be made within 30 months from last date of the relevant Y/A.

  If the taxpayer is a resident individual and the refund claim is not exceeding Rs. 60,000 for a Y/A prior to 01.04.2025 or not exceeding Rs. 180 000 for a Y/A commencing on or after 01.04.2025, the Commissioner-General shall pay the refund amount due, within three months of the date of the refund claim made by such resident individual, prior to a tax audit.

  Provided that, if such resident individual is a senior citizen who is not an instalment payer and his refund claim is not exceeding Rs. 60,000 for a Y/A or Rs. 15,000 for a quarter prior to 01.04.2025 or w.e.f 01.04.2025, not exceeding Rs. 180,000 for a Y/A or Rs. 45,000 for any quarter ending on the thirtieth day of June, thirtieth day of September, thirty first day of December and thirty first day of March, such refund claim shall be paid within three months of the date of the refund claim made by such resident individual, prior to a tax audit.

Chapter 06 | Withholding Tax, Capital Gain Tax and Case Laws relating to Taxation

-Page 118-

6.1.2.2 Withholding on Investment Returns (Section 84 & 84A) & Service Fees (Section 85)

Fourth row of the table should be amended as follows;

Interest or discount paid upto 31.03.2025	5%
Interest or discount paid from 01.04.2025	10%

-Page 121-

6.2.1.6 Tax Rate

Following has been added.

For companies	30%
For others	10%

Budget proposals 2025 CGT rate applicable for individuals and partnerships will be increased to 15% from 10%. The CGT rate applicable for all other entities will be rated to 30%

Chapter 07 | Other Taxes

-Page 134-

Following persons are required to register for VAT

Second paragraph should be amended as follows;

On or after 01.04.2024, any person who supply taxable goods or services in excess of Rs.60 million per annum or Rs.15 million per quarter as a trade, business, profession or vocation is required to register for VAT.

-Page 136-

7.1.2.3.1 Compulsory Registration – (Section 10)

Table should be amended as follows;

	From 01.10.2022 up to 31.12.2023	From 01.04.2024
Per 03 months taxable period	Rs.20 million	Rs.15 million
Per 12 months taxable period	Rs.80 million	Rs.60 million

-Page 138-

Question 04

Should be amended as follows;

What is the threshold of supply values applicable for compulsory VAT registration from the date of 01.01.2024?

-Page 138-

Answer 04

Should be amended as follows;

Quarterly	Rs. 15 Mn.
Annually	Rs. 60 Mn.

-Page 141-

7.2.3 Exempt Supplies (Section 8)

Following should be amended of point (a)

- Pharmaceutical products, Drugs other than cosmetics
- Dyes used for handloom industry

-Page 141-

7.2.3 Exempt Supplies (Section 8)

Following should be amended of (b) second point

Public passenger transport services otherthan air, water transport or transport of tourists, Taxi services

-Page 144-

7.3.4 Filing of VAT Return (Section 21)

Following should be added at the end of paragraph.

Every registered person shall furnish return for any taxable period commencing on or after July 1, 2025, by electronic means only. However,the Commissioner General may permit to a person who makes a request to file a return in writing on special circumstances which Commissioner-General deems appropriate.

-Page 146-

Question 09

Date should be 31.03.2025

-Page 146-

Question 10

Date should be 31.03.2025

-Page 146-

Answer 09

Should be as follows;

- 20.02.2025
- 20.03.2025
- 20.04.2025

-Page 147-

Answer 10

Year shoud be 2025

-Page 148-

7.4 Simplified Value Added Tax (SVAT) Scheme [Section 2 (2) (e)]

Following should be added as the last paragraph

i.e.: By VAT amendment Act. No. 04 of 2025 SVAT scheme has been abolished w.e.f. 01.10.2025 and replaced by a Risk Based Refund Scheme.

-Page 160-

Point c) and Exercises

Year of assessment should be 2024