

# CORPORATE AND PERSONAL TAXATION

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SUBJECT NO: 304

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UPDATES FOR THE  
YEAR OF ASSESSMENT 2022/2023

## 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)
2023 - July Exam	-	2022/2023
2024 - January Exam	-	2022/2023

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**Dear Students,**

Please note the below regarding 304: Corporate and Personal Taxation (CPT) subject.

**Testing Year of Assessment for Corporate and Personal Taxation (CPT) subject at the July 2023 and January 2024 Examination**

Y/A 2022/23 will be tested for the July 2023 Examination (held in August) and January 2024 examination. Even though more changes are effective from 1st January 2023, those changes are applying for the whole year irrespective of the time period at the examination considering the convenience of the students.

**Testing Social Security Contribution Levy (SSCL) under Other Business Taxes at the July 2023 Examination onwards**

Social Security Contribution Levy (SSCL) Act No.25 of 2022 was introduced and it is applicable w.e.f. 1st October 2022, accordingly SSCL will be tested at the July 2023 Examination onwards under Other Business Taxes chapter.

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### 1.5.1 Who is liable to pay income tax?

Eg: Added another eg,

- Dividends paid by a Resident company that are subject to withholding payment

### 2.1.3 Value of Benefits

- Value of benefits from any residence provided by the employer

*Following point should be removed.*

“Value” of any benefit of any place of residence provided by the employer, in respective situations, should be the market value or value specify as follows where the market value is not ascertainable.

*Following table should be added*

Description	Amount of Non ± Cash Benefit for the Relevant Month		
	In Rated area	In Unrated area	Estate Bungalows
The Residence is provided by the employer	12.5% of salary of the relevant month	10% of salary of the relevant month	7.5% of salary of the relevant month

- Value of Transport Facilities provided by the employer

*Following point should be removed.*

The value of benefit to an employee from the (fully/partly) private use of any motor vehicle should be the market value or value specify as follows where the market value is not ascertainable.

*Following table should be added*

Type of vehicle	Amount of Non ± Cash Benefit for the Relevant Month		
	Vehicle	Driver	Fuel
Any Vehicle	20000	10000	20000

**\*\* Following point should be added**

Quantification of the value of communication facilities provided by the employer

Where any employee is entitled to receive a payment for communication facilities under any circular, Directive or Regulation issued on that behalf by the Government, the 25% of the cost incurred by the employer for such payment should be the value of the benefit to the employee of such payment.

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4. Other Benefits provided by the employer

*Should be amended as follows*

Loans on Concessionary Rates ---- 0% of the cost

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## 2.1.7 Treatment of Retirement Benefits

*Should be amended as follows*

Profit from employment include certain lump sum receipts of an employee at retirement. Any retirement payments received at the time of retirement by employee and has been taxed in a previous year of assessment shall be in calculating individual's gains and profit from an employment.

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### 2.2.5.1 General Deductions (Section 10)

#### General Rules

*Should be amended as follows*

A deduction for a payment from which WHT is required withheld shall not be allowed until the withheld tax has been paid to the Commissioner General.

- Interest or Discount paid - 5%
- Rent payments made to a resident person where the aggregate payment exceeds or equal to Rs.100,000 per month - 10% on full amount
- All other payments except Dividend – 14% (Charge, Natural Resource payment, Royalty or Premium)
- A person shall withhold tax at the rate of 5% of the payment, where such person pays a service fee with a source in sri lanka to a resident individual who is not an employee of the payer,
- For teaching, lecturing, examining, invigilating or supervising an examinations
- As a commission or brokerage to a resident insurance, sales or canvassing agent
- For services provided by such individual in the capacity of independent service provider such as Doctor, Engineer, Accountant, Lawyer, Software developer, Researcher, Academic or Any individual service provider as may be prescribe regulation.

(However, the deduction is not applicable to a service payment which does not exceed Rs.100, 000 per month.)

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#### 2.2.5.4.7 Improvements (Section 14)

*Should be amended as follows*

The deductions shall not exceeds

For assets categorized under

- Buildings, structures and similar depreciable assets (class 4) - equally over 12 Y/As
- For all cases - equally over 3 Y/As

#### 2.2.5.4.9 Business or Investment Losses (Section 19)

##### Loss deduction rules

##### *3. (a) And (b) Should be amended as follows*

Where a person had incurred a loss, in relation to a business which if it had been a profit would have been taxable at a reduced rate and such rate is subsequently increased, such loss shall not be considered as being taxable at a reduced rate.

##### 4. Following point should be added

(C) Unrelieved losses from investment shall be deducted only within the six years of assessment commencing on the first date of the year of assessment immediately succeeding the year of assessment in which such losses were incurred.

#### 2.2.5.4.10 Marketing and communication expenses

##### *Following point should be added at the end of the first paragraph*

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.

#### 2.3.1 Dividend

##### Final withholding Payments (Section 88)

##### *Following point should be amended as follows*

Dividend paid by resident companies shall be considered as final withholding payment.

A dividend paid by a resident company to a member to the extent that such dividend payment is attributable to, or derived from, another dividend received by that resident company or another resident company which is subject to Advanced Income Tax under subsection (1A) of section 84A.

##### *Following point should be removed.*

A dividend paid by a resident company to a member who is a non - resident person.

#### 2.3.2 Interest

##### *Following point should be added*

On interest payment should be deducted 5% as an Advanced Income Tax from 2023.01.01

##### *Following points should be removed.*

- Final withholding payments - (Applicable up to 31.12.2019)
- Reliefs on interest ( Fifth schedule) - (Applicable up to 31.12.2019)

### 2.3.10 Realization of Investment Assets. (Capital Gains)

*Following point should be amended as follows*

Accordingly, capital gains tax (CGT) is charged on the gains arise from realization of investment assets at the rate of 10%. w.e.f 01.10.2022, 30% tax rate applicable for companies.

### 3.2.2 Conditions in clamming qualifying payments.

*Following point should be amended as follows*

**Personal Relief;**

- a. Rs.1,200,000

*Following points should be removed.*

- Relief for employment; (up to 31.12.2019 only) .....
- Relief for resident individual

**Answer 01 should be changed as follows**

Mr.Perera is entitled to apply the basic relief against his business income of Rs.2,400,000 but not against the investment gain of Rs.600,000. Accordingly, his taxable income will be Rs.1,800,000. (600,000 + 2,400,000 – 1,200,000)

**Answer 03 should be changed as follows**

Employment Income	Rs.	3,500,000
Less: Basic relief	Rs.	(1,200,000)
Taxable Income	Rs.	2,300,000

### 3.3.1.1 Tax Rates for resident and non ± resident individuals

*Following Tax Rates should be amended as follows*

w.e.f. 01.01.2023 following rates are applicable for individuals.

Taxable Income	Rates
First 500,000	6%
Next 500,000	12%
Next 500,000	18%
Next 500,000	24%
Next 500,000	30%
Balance	36%

### 3.3.4 The income tax rates applicable to companies (First Schedule)

w.e.f. 01.10.2022 following rates are applicable for companies.( should be Removed concessionary rates/Lowest tax rates)

Gains & Profits from;	Up to 30.09.2022	From 01.10.2022
Small and Medium Enterprises (SME)	14%	30%
Export of goods where payment is received into SL in FCY	14%	30%
Specified Undertaking	14%	30%
Educational Services	14%	30%
Undertaking for the promotion of tourism	14%	30%
Construction services	14%	30%
Agro Processing	14%	30%
Health care services	14%	30%
Dividends received from a resident company	14%	30%
Consideration received in respect of gems and jewellery	14%	30%
Export company registered with BOI from supply of health protective equipment for various government entities	14%	30%
Gains and Profits the supply of electricity to national grid generated using renewable energy resources	14%	30%
Manufacturing	18%	30%
Conducting betting and gaming	40%	40%
Manufacture and sales or imported and sale of any liquor or tobacco product	40%	40%
Other business	24%	30%

- Gains from the realization of investment assets (Capital Gains)  
Those gains, shall be taxed at the rate of 30%

### 3.6.1 Exempt Income (schedule 03)

*Following exemptions should be removed.*

- h.
- ii. A gain made by a person on or after April 1,2021 from the realization of land or building which was sold, exchanged or transferred to a real estate investment trust listed in the Colombo stock exchange and licensed by the securities and exchange commission of sri lanka.
- u.
- ii. Providing information technology and enabled services on or after 01.01.2020, as may be prescribed;
- v. any vocational education programmers of any vocational education institute which is standardized under technical and vocational education and training concept (TVET concept) and regulated by the tertiary and vocational education commission.
- vi. any business of export of gold, gems or jewellery or from the business of cutting and polishing of gems which are brought to sri lanka and exported after such cutting and polishing, where such gains and profits earned in foreign currency are remitted trough a bank to sri lanka, with effect from April 1, 2021;

### 3.6.2 Final withholding payments

Final withholding payments on or after January 01, 2023

- (a) No changed
- (b) No changed
- (c) No changed
- (d) Dividend paid by resident companies

Answer should be changed

Assessable income	3,500,000	
Less: Reliefs		
Personal relief	(1,200,000)	
Taxable income	2,300,000	

Answer should be changed

Assessable income	4,839,000	
Less: Reliefs		
Personal relief	1,200,000	
Relief for rent (600,000 x 25%)	150,000	(1,350,000)
Qualifying payments		
Cash donation of Rs.100,000 to national kidney Fund	100,000	
Cash donation – village temple – not allowed		(100,000)
<b>Taxable income</b>		<b>3,389,000</b>

First	500,000 x 6%	30,000	
Next	500,000 x 12%	60,000	
Next	500,000 x 18%	90,000	
Next	500,000 x 24%	120,000	
Next	500,000 x 30%	150,000	
Balanced	889,000 x 36%	320,040	770,040
Less Tax credit			
APIT deducted		45,000	
Installment payment		10,000	(55,000)
Balance tax payable			715,040

Answer should be changed

Tax liability	18,502,000 x 30%	5,550,600
Less – tax credit		-
Balance tax payable		5,550,600



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#### 4.4 Non - government organizations (NGO)

*Following points should be amended as follows*

- As per section 68, a non – government organization shall pay an additional tax of 3% of amounts received in each year of assessment by way of grant, donation or contribution or in any other manner at the rate of 30% (w.e.f.01.10.2022)
- Other taxable income of a non – government organization is taxed at the rate of 30% (w.e.f.01.10.2022)

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*Answer should be changed*

Tax on taxable income at 30%     132,000

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#### 5.1.1.2 How to calculate

Following point should be added

- The income tax payable by a person for the year of assessment commencing on 01 April 2022, shall be calculated separately for two periods of the year of assessment as first six months and second six months on a pro – rate basis.

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#### 5.2.1.1 Who shall furnish return of income?

*Following point should be changed as follows*

- 1) a) i)
  - ii) A return of income for a Y/A will not be required to be filed by an individual whose tax payable for the Y/A relates exclusively to income from employment where the employer has deducted APIT under section 83A and no tax will be payable under self-assessment.

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#### 5.3.5 Time Bar Provision (Sec. 135)

*Following point should be changed as follows*

- In any other case, within 12 months of

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#### 5.4.2 Administrative review (Sec. 139)

*Following point should be changed as follows*

- A request for review shall be made to the Commissioner General in writing not later than 14 days after the taxpayer was notified of the decision, and shall specify in detail the ground upon which it is made. (w.e.f.01.04.2023)

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**6.1.2.1.1 Advanced Personal Income Tax (APIT)***Following point should be changed as follows*

As per the guide line issued by IRD for employers, every employer is required to deduct income tax from the gains and profits from employment of each employee who is liable to pay income tax, at the time of such remuneration is paid or credited.

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**6.1.2.2 Withholding on Investment Return (section 84 & 84A) & service fees (section 85)***Following point should be changed and added as follows*

- Interest or Discount paid – 5%
- Rent payments made to a resident person where the aggregate payment exceeds or equal to Rs.100,000 per month – 10% on full amount
- Dividend paid – 15%
- All other payments except Dividend – 14% ( Charge, Natural Resource payment, Royalty or Premium )
- Service fee paid - 5% of the payment,
  - For teaching, lecturing, examining, invigilating or supervising an examinations
  - As a commission or brokerage to a resident insurance, sales or canvassing agent
  - For services provided by such individual in the capacity of independent service provider such as Doctor, Engineer, Accountant, Lawyer, Software developer, Researcher, Academic or Any individual service provider as may be prescribe regulation.

(However, the deduction is not applicable to a service payment which does not exceed Rs.100, 000 per month.)

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**6.2.1.6 Tax Rate  $\pm$  10% (for companies 30%)**

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Following persons are required to register for VAT

*Should be amended as follows*

Any person who supply taxable goods or services in excess of Rs.80 million per annum or Rs.20 million per quarter as a trade, business, profession or vocation is required to register for VAT.

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**7.1.2.3.1 Compulsory Registration – (section 10)***Should be amended as follows*

	Up to 31.12.2019	From 01.01.2020 up to 30.09.2022	From 01.10.2022
Per 03 months taxable period	Rs.3 million	Rs.75 million	Rs.20 million
Per 12 months taxable period	Rs.12 million	Rs.300 million	Rs.80 million

## Tax Rates of VAT

*Should be amended as follows*

Zero rate	0% (section 07)
Standard rate (from 01.10.2022)	15%

*Should be amended as follows*

## Output VAT

On supplies liable at standard rate of 15%

*Following point should be added at the end of the Chapter 07.*

## 7.11 Implementation Of Social Security Contribution Levy Act, No. 25 Of 2022

### 1. Imposition

Social Security Contribution Levy (SSCL) will be imposed with effect from October 01, 2022, at the rate of 2.5% by the Social Security Contribution Levy Act, No. 25 of 2022 (SSCL Act)

### 2. Scope of Liability (Section 2)

SSCL is payable by every person who;

- a) imports any article;
- b) carries on the business of manufacture of any article;
- c) carries on the business of providing a service of any description; or
- d) carries on the business of wholesale or retail sale of any article including importation and sale of such article other than a sale by the manufacturer of that article being a manufacturer to whom the provisions of paragraph (b) apply.

### 3. Registration (Section 4)

Every taxable person (persons referred in section 2), other than a taxable person who, imports any article shall be required to be registered;

#### i. Person whose turnover already exceeded Rs. 120 Mn

If the aggregate turnover exceeded Rs. 120,000,000 within the twelve months immediately prior to the date of operation of the SSCL Act excluding the turnover from exempted articles or services not later than fifteen days from the date of operation of the SSCL Act

Eg: if the turnover (total turnover – turnover from exempt articles or services) for the period from 01.10.2021 to 30.09.2022 is more than Rs. 120 million, such person is required to be registered on or before October 15, 2022.

## ii. Any other person

Rs. 30,000,000 for a quarter for any other person not later than fifteen days from the date on which turnover exceeds Rs. 30 million per quarter, if the person did not fall under above item (i)

## 4. Payment of SSCL (Section 17)

SSCL is payable on a self-assessment basis in three monthly installments. The due dates are as follows.

### Due Date for Payment

Installment	Payment Date
1st Installment	Tax due for the first month should be paid on or before the 20th day of the second month of that relevant quarter
2nd Installment	Tax due for the second month should be paid on or before the 20th day of the third month of that relevant quarter
3rd Installment	Tax due for the third month should be paid on or before the 20th day of the month immediately succeeding the end of that relevant quarter <sup>1</sup>

Once registered for SSCL, SSCL should be paid irrespective of the turnover limit for registration.

## 5. Liable Turnover (Second Schedule)

	Description	Liable Turnover	
(i)	Import of any article (collectible by the Director General of Customs)	100% of the Import value	
(ii)	Manufacture of any article	85% of the turnover	
(iii)	Providing of services	(a) Supply of Financial services	100% of the Value addition attributable to financial services <sup>*</sup>
		(b) Real Estate and improvements	100% of the turnover <sup>**</sup>
		(c) Services other than (a) and (b)	100% of the turnover
	(a) Sale of any article by a registered distributor <sup>****</sup> in relation to any manufacturer or producer of any goods in Sri Lanka	25% of the turnover	
(iv)	Wholesale and retail sale <sup>***</sup>	(b) Wholesale or retail sale other than item (a) above including importation and sale	50% of the turnover

\* Value addition attributable to financial services, calculated by applying the attributable method specified in the Gazette Notification issued under section 25C of the Value Added Tax Act, No. 14 of 2002.

\*\* Turnover = Sale Value – Market value of the bare land to date of sale

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\*\*\* Following transactions also fall under wholesale and retail sale

- Buy and sale
- Import and sale
- Produce and sale (does not include manufacture and sale)

\*\*\*\* Registered distributor in relation to any manufacturer or producer of any goods in Sri Lanka means any person or partnership appointed by such manufacturer or producer for the sale in the wholesale market, of such goods, at such price as may be determined by such manufacturer or producer, from time to time.

#### 6. Furnishing SSCL Returns (Section 8)

Due Date for Furnish Returns: on or before the 20th day of the following month of the end of that relevant quarter.

the turnover does not include

- any bad debt incurred by such a person in that quarter.
- any value added tax under the Value Added Tax Act, No. 14 of 2002 paid for that relevant quarter
- any rebate paid under the Export Development Rebate in relation to any international event as approved by the Minister

**Any bad debt subsequently collected should be taken to the turnover of the period in which such bad debt is so collected.**

#### 7. Credit and Refund Mechanism (Section 36)

No input credit or refund mechanism is available in the Act. However, levy or penalty paid in excess of any amount which such person was liable to pay for any relevant quarter; shall be treated as an advance payment made for any quarter succeeding the relevant quarter.

#### 8. Penalties for Non-Compliance

(a) Failure to apply for registration within the due period- Penalty of a sum not exceeding Rs. 25,000

(b) Failure to furnish Return - Penalty of a sum not exceeding Rs. 50,000

(c) Default of payment -

- a) 10% of the amount in default; and
- b) an additional 2% for each additional month of default.

The total amount payable as penalty shall not exceed 100% of the levy in default.

#### 9. Cancellation of Registration (section 10)

A registered person can make an application to the Commissioner General to cancel his registration at any time after the lapse of period of twelve months from the date of registration, if -

- the registered person has ceased the business referred to in section 2
- the aggregate turnover of such registered person during each immediately preceding four quarters of the relevant quarter does not exceed hundred and twenty million rupees

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