

CORPORATE AND PERSONAL TAXATION

SUBJECT NO: 304

UPDATES FOR THE
YEAR OF ASSESSMENT 2020/2021

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)
2021 - July Exam	-	2020/2021
2022 - January Exam	-	2020/2021

The following taxes included in the **Chapter 07 will be tested** from **January 2022 examination**

- 7.10 Share Transaction Levy (STL)
- 7.11 Tourism Development Levy (TDL)
- 7.12 Excise Duty chargeable under the Excise (Special Provisions) Act

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1.3.4 The Excise Department *(should be replaced with below para)*

Main functions of the Excise Department are the collection and protection of revenue from liquor and tobacco, the enforcement of Excise Ordinance and the Tobacco Tax Act and the enforcement of the Poisons, Opium and Dangerous Drugs Ordinance.

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1.5.1 *Following Eg. Should be removed;*

Dividend paid by a resident company to a resident person.

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1.5.2 *3rd paragraph should be amended as follows;*

For an example, year of assessment 2020/21 covers the period from 01.04.2020 to 31.03.2021. However a trust or company may apply to the CGIR for a change to its year of assessment [(Sec. 20 (2)].

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1.6.1 *Example should be amended as follows;*

Arrival	Departure	Days present in Sri Lanka
03.04.2020	21.05.2020	48
04.06.2020	30.07.2020	56
15.09.2020	14.11.2020	60
01.12.2020	22.12.2020	21
Total		<u>185</u>

As per the above data during the year of assessment 2020/21 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.

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2.1.6 Example 1 *should be amended as follows*

Mr. Gamage is an employee of ABC Company. The company paid bonus of Rs 500,000 in December 2020, out of the profit earned for the year of assessment 2019/2020. Mr. Gamage is liable to tax on this bonus for the year of assessment 2020/2021.

2.1.7 *"Following rates are applicable only up to 31.12.2019" should be included under "Lower rates applicable for retirement benefits"*

Rates are available in the study text.

2.2.5.3 Main Deduction (Section 11) - following para should be added

- (c) For the purpose of section (11), cost of funds of the financial institutions incurred on the loans provided for new businesses commenced on or after April 1, 2021 by any individual after successful completion of vocational education from any Vocational Education Institution which is standardized under Technical and Vocational Education and Training concept (TVET concept) and regulated by the Tertiary and Vocational Education Commission, shall be deemed to be incurred in the production of income of such financial institutions

2.2.5.4.1 Replacing the Y/A in the example

2020/21 for 2018/19 and 2021/20 for 2019/20

2.2.5.4.2 Thin Capitalization Rule - Following should be replaced ;

For other entities

Allowable Finance Cost attributable to financial instruments = (Total Financial Cost/Total Cost of Financial Instruments) X [(Total of the issued Share Capital and reserves) X 4]

Following provision is applicable w.e.f. 01.04.2021.

- (1) The amount of financial costs deducted in calculating the income of a company (other than financial institution) which is incorporated in or outside Sri Lanka and having an issued share capital as at the date on which the year of assessment ends, from conducting a business or investment for a year of assessment commencing from April 1, 2021, shall not exceed the limit given below.

financial cost of the year	(4 x total of the issued share capital
value of financial instruments X	& reserves of the company as at the on which
incurred during the year	the financial cost end of the year)

Upto 31.03.2021, any amount unutilized in the current year may be carried forward up to six years, subject to the same thin capitalization restriction.

Financial cost incurred (other than such mounts, of which deductions is denied in previous years during the year of assessment commencing on April 1, 2021, shall be deducted irrespective of the limit referred to in subsection (2) of section 18. That year of assessment shall not be recognized for the purpose of six years period referred to in subsection (3) of section 18. This thin capitalization rule does not apply to Financial Institutions.

This thin capitalization rule does not apply to Financial Institutions.

2.2.5.4.2 Replacing the Y/A and years in the Example included in page 34.

Existing dates	To be revised as;
2018/19	2020/21
2019/20	2021/22
31.3.2019	31.2.2020
2024/25	2026/27

2.2.5.4.4 Research & Development cost (Section 15)

The last para should be amended as follows;

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.

2.2.5.4.6 Capital allowances and balancing allowances - Part (b) to be amended

- (b) calculated in accordance with the provisions of the Second, fourth or sixth Schedule to the Act.

Depreciable assets means; *following to be added as 3 (v)*

3. v. a motor cycle (w.e.f. 01.04.2018)

2.2.5.4.6 following should be added as No. 6 to the table 01

Class	Depreciable Assets	Number of Years
6	milking machines with latest technology, used to manufacture local liquid milk related products w.e.f.01.4.2021	2

2.2.5.4.6 following paragraph should be added before the table 2

Assets acquired under finance lease are not entitled to capital allowances.

2.2.5.4.6 Enhanced Capital Allowances (Second Schedule)

1. Expenses incurred by that person should be replaced with investment made by that person
2. Capital allowances arising on above table with respect to a particular year of assessment cannot be accumulated with another paragraph and shall **not** be taken in that year and shall be deferred to a later year of assessment. Any unrelieved losses arisen can be carried forward as follows;

2.2.5.4.7 Repairs & improvements (Section 14) - Following para should be added

w.e.f. 01.04.2021, limitation on repairs will be removed. And the word "improvement" is defined.

"Improvement" means the expenditure incurred by a person to make additions or alternations to a depreciable asset which enhances the value of such asset, but excludes the expenditure incurred to maintain or repair a depreciable asset which temporarily enhances the value of such asset.

Example

During the year of assessment -2020/2021, the Cost of repair improvement - Rs. 400,000

2.2.5.4.9 Business or Investment Lossess (Section 19)

Loss deduction Rules – *Following para should be added to item 3*

w.e.f. 01.04.2021, where any company has an unrelieved loss from business to deduct in the current year of assessment from a period during which that company had operated as a small and medium enterprise and, if-

- (a) the unrelieved loss was a profit in the year of assessment in which that unrelieved loss was incurred and which would have been taxed at a reduced rate; and
- (b) the current year business income is not taxable at the same reduced rate as in the year referred to in the paragraph (a), that unrelieved loss shall, (subject to paragraph (b) of subsection (1)), be deemed to be a loss (if it would have been a taxable profit) taxed at the same rate of the current year

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New topic after 2.2.5.4.9

Marketing and Communication Expenses

For any year of assessment commencing on or after April 1, 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.

Marketing and communication expenses means, any expenses incurred by any 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.

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.

2. The additional deduction shall be made subject to the following conditions: -
 - (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;

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- (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.

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2.3.1 Dividend - Exempt amounts (Third schedule) *should be replaced with following*

Up to 31.12.2019 a dividend paid by a resident company to a member to the extent that dividend payment is attributable to, or derived from, another dividend received by that resident company or another resident company that was subject to withholding tax;

Final Withholding payments (Section 88) Dividend paid by resident companies to resident persons (applicable upto 31.12.2019)

Following part to be added;

As per proposed changes, w.e.f.01.01.2020, following dividends are exempted.

- A dividend paid by a resident company to a member to the extent that dividend payment is attributable to, or derived from, another dividend received by that resident company or another resident company
- a dividend paid by a resident company to a member who is a non-resident person;
- a dividend paid by a resident company which is engaged in any one or more of the following businesses in accordance with the provisions of the PART IV of the Finance Act No. 12 of 2012 and within the meaning of an agreement entered into with the Board of Investment of Sri Lanka established under the Board of Investment of Sri Lanka Law, No.4 of 1978:-
 - (i) entrepot trade involving import, minor processing and re-export;
 - (ii) offshore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing the same into Sri Lanka;
 - (iii) providing front end services to clients abroad;
 - (iv) headquarters operations of leading buyers for management of financial supply chain and billing operations;
 - (v) logistic services such as bonded warehouse or multi- country consolidation in Sri Lanka.
- Dividends from and gains on the realization of shares in a non-resident company where derived by any person with respect to a substantial participation in the non-resident company. (as defined the "substantial participation" in paragraph (r) to the Third Schedule to the IRA)

2.3.2 Interest - *Following part to be added;*

As per proposed changes,

It was proposed to exempt following interest income.

- The interest accruing to or derived by any person outside Sri Lanka on any loan granted to any person in Sri Lanka or to the Government of Sri Lanka (with effect from 01.04.2018)
- The interest accruing to or derived by any person on moneys lying to his credit in foreign currency in any foreign currency account opened by him or on his behalf, in any commercial bank or in any specialized bank, with the approval of the Central Bank of Sri Lanka (With effect from 01.01.2020)
- With effect from 01.04.2018, any income earned by
 - any non-resident person (other than a Sri Lankan permanent establishment) by way of interest, discount or realization of any gain on any sovereign bond denominated in local or foreign currency

- any person by way of interest or discount paid or allowed, as the case may be, on any sovereign bond denominated in foreign currency, including Sri Lanka Development Bonds, issued by or on behalf of the Government of Sri Lanka

In addition to above, by the national budget 2021, following exemptions were given.

- Interest accruing to or derived on or after April 1, 2021 by any welfare society formed or setup by Sri Lanka Army, Sri Lanka Navy, Sri Lanka Air Force or Sri Lanka Police.
- Interest accruing to or derived by any multi-national company on or after April 1, 2021 from the deposit opened by utilizing the foreign sources and maintained such deposit in foreign currency in any domestic bank, if such deposit is maintained to cover its import expenditure for that year of assessment.
- Interest or discount accruing to or derived on or after April 1, 2021 by any Samurdhi community-based banks established under the Department of Samurdhi Development, from security or Treasury bonds under the Registered Stocks and Securities Ordinance (Chapter 420) or Treasury bills under the Local Treasury Bills Ordinance (Chapter 417).

Note : Final withholding payments and Reliefs on interest (Fifth Schedule) applicable only upto 31.12.2019

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2.3.10.2 Calculation of gains and losses (Section 36) - *Following para should be added*

As per proposed amendments to the Inland Revenue Act, in any year of assessment commencing from April 1, 2021, an assets owned by a person is used in the production of different gains and profits from business (including losses) taxable at different tax rates, the cost of, and consideration received for the asset shall be apportioned among such gains and profits according to the market value of the parts of the assets used to produce respective gains and profits.

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Example - 01.05.2018 should be ammended as 01.05.2020

CHAPTER 03

Taxation of Individuals & Companies (Resident)

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3.2.1 *Following para should be added - After (c)*

As per proposed changes with effect from April 1, 2019, any sum paid to the consolidated Fund by a public corporation as required by the law by or under which such corporation is established, is a qualifying payment.

Following items will be added with effect from April 1, 2021,

- contribution made by a resident individual in money or otherwise to establish a shop for a female individual who is from a Samurdhi beneficiary family as recommended and confirmed by the Department of Samurdhi Development;
- expenditure incurred by any financial institution by way of cost of acquisition or merger of any other financial institution where such cost is ascertained by considering all the facts on case-by-case basis and as confirmed by the Central Bank of Sri Lanka. Such deductible expenditure shall be apportioned in equal amounts over a period of three years of assessment and be deductible from the assessable income of that financial institution in each such year of assessment commencing from the year of assessment where the expenditure is incurred
- expenditure incurred on or after April 1, 2021, by any person-
 - in the production of a film at a cost of (including promotional expenditure of such film) not less than Rs. 5 million;
 - in the construction and equipping of a new cinema at a cost of not exceeding zrs. 25 million

-
- (iii) in the upgrading of a cinema at a cost of not exceeding Rs. 10 million

Provided that, the deduction shall be restricted to 1/3 of the taxable income of the year, and any amount which is not deducted in current year may be carried forward and deducted in the next succeeding year and so on, subject to the same restriction.

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3.2.2 Note under (b) to be amended as follows

Note: with the increase of personal relief to 3 Mn per annum, this relief will not be available from 01.01.2020

Note under (d) ± Following para should be included

Note: This relief will be removed w.e.f 31.12.2019.

3.2.2 Note under (e) to be amended as follows

Note: This relief will be removed w.e.f.01.01.2020, since the foreign source income is exempted.

As per Inland Revenue Amendment Bill, it is proposed following reliefs

(a) should be removed and (b) should be re-numbered as (a)

Question 01

Mr. Perera has received Rs. 2,400,000 of business income and Rs. 600,000 of gain from the realization of a portfolio of unlisted shares that he has held as investment for the year of assessment 2020/21. Assume Mr. Perera has no any other income and is tax resident in Sri Lanka for that year of assessment. What is the total relief he can enjoy in arriving at taxable income?

Answer 01

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. 600,000. (600,000 + 2,400,000 – 2,400,000) The excess relief of Rs. 600,000 will be disregarded.

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Question 02

Y/A should be 2020/21

Answer 02

She is entitled to apply the basic relief against her employment income , business income and rent. She is not entitled to any relief in respect of the gains from realization of investment assets. Taxable Income for Y/A 2020/21 will be Rs.1,400,000.

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Question 03

Y/A should be 2020/21 and income should be Rs.3.5 Mn

Answer 03

Employment Income	Rs.	3,500,000
less: Basic relief	Rs.	(3,000,000)
Taxable Income	Rs.	500,000

Question 04

Gayan owns Company A which is in the business of renting office space. Company A derives business rental income of Rs. 4 million. In addition, Gayan has inherited a residential property from his late father, which he does not use as his principal residence but instead rents it out for Rs. 500,000 per month. Assume that he has not claimed deductions for actual expenditure for repair, maintenance and depreciation of the residential property. What is the taxable income of Gayan?

Answer 04

He is entitled to apply the full Rs. 3,000,000 basic relief as well as the full rental income relief of Rs. 1,500,000 (25% of Rs 6 million) against his investment income, resulting in taxable income of Rs. 1,500,000 from the investment income. Company A is not entitled to the rental relief as it is an entity and not an individual. However, Company A is entitled to claim deductions for any actual expenditure for repair and improvements of the office building under Sec. 14 and capital allowances under Sec. 16.

Question 05 & Answer

Y/A should be 2020/21

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3.3.1 Tax rates for resident and non-resident individuals -

Rates in the table are applicable only up to 31.12.2019

3.3.2.2 Lower rates applicable for retirement benefits - *Below two points should be removed*

- Amount paid to a person at or after the time of retirement from employment from a provident fund approved by the Commissioner-General that does not represent the person's contributions to that provident fund
- Amount paid to a person from a regulated provident fund that does not represent the contributions made by the employer to that provident fund before April 1, 1968, and the interest which accrued on such contributions made by the employer, if tax has been paid by the employer at 15% on such contributions made and the interest accruing thereon; and

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3.3.2.2 Lower rates applicable for retirement benefits - *Rates are applicable only up to 31.12.2019*

3.3.2.3 *Following should be added as 3.3.2.3*

Reduced rate of 14%

It is proposed that w.e.f. 01.04.2021, individual's gains and profits from the consideration received in respect of gems and jewellery shall be taxed at the maximum rate of 14%

3.3.3. Higher tax rates applicable to individuals - *should be amended as follows.*

Income from a business consisting of betting and gaming, manufacture and sale or import and sale of any liquor or tobacco product -40%.

3.3.4 The Rates noted in point (a) - (e) - *have been proposed w.e.f. 01.01.2020*

3.3.4 The income tax rates applicable to companies (First Schedule) - *Following para should be added*

Accordingly, "Predominant Rule" will not apply in future and based on the nature of taxable profits, relevant tax rate should be applied.

3.3.4. Note; the words "notice dated 08.04.2020 issued by IRD", should be amended as "Inland Revenue Amended Bill, w.e.f.01.01.2020"

As per Inland Revenue Bill it is proposed following concessionary rates w.e.f. 01.04.2021.

- gains and profits of any company which lists its shares on or after January, 1 2021, but prior to December 31, 2021, in the Colombo Stock Exchange licensed by the Securities and Exchange Commission of Sri Lanka, for three years of assessment commencing from April 1, 2022 -14%;
- gains and profits from the consideration received in respect of gems and jewellery – 14%

3.3.4.1 Important Interpretations

(iii) (b) *should be amended as follows.*

the person does not have an associate that is an entity; unless such person's and associate's aggregate annual gross turnover is less than Rs. 500, 000,000 and

(iv) *Following para should be added as point (l) & (m)*

As proposed by Inland revenue Amendment Bill, w.e.f.01.04.2021

(l) sale of goods manufactured in Sri Lanka by an export-oriented company which has entered into an agreement with the Board of Investment of Sri Lanka to-

- (i) any company which has entered into an agreement with the Board of Investment of Sri Lanka enjoying tax holidays under the Strategic Development Projects Act, No. 14 of 2008 and which is permitted to import project related goods or raw materials on duty free basis under the provisions of such agreement, during the project implementation period; or
- (ii) any person eligible to import specific goods on duty free basis under any Government Authority, but, up to the quantity approved by the Board of Investment of Sri Lanka as import replacement within the three years period commencing on April 1, 2021;

(m) bunkering services provided for the supply of marine fuel, including the supply of marine fuel to local bunker suppliers within a specified port premises;"

(vi) *should be replaced with the following*

Agricultural business" means the business of agro farming or agro processing, but excludes farming of, or processing of liquor or tobacco produces or products, as the case may be as per Inland Revenue Amendment Bill,

"agro farming means-

- (a) the tillage of the soil and cultivation of land with plants of any description, cultivation in green house, bee-keeping, rearing of fish, shrimp farming or animal husbandry, poultry farms, hatchery, veterinary or artificial insemination services;

- (b) the cleaning, sizing, sorting, grading, cutting or chilling of any produce produced out of any activity referred to in paragraph (a) by any person who is engaged in any such activity, in preparation of such produce for the market but excludes the agro or food processing;

“agro processing means the processing of any locally produced agricultural, fishing, or animal product and includes an undertaking for the dehydrating, milling, packaging, canning for the purpose of changing the form, contour or physical appearance of such product in preparation for the market but excludes an undertaking of deep-sea fishing or manufacturing;

“manufacture means a change in a non-living physical object, article or thing-

- (a) resulting in transformation of such object, article or thing into a new and distinct object, article or thing having a different name, character or use; or
- (b) bringing into existence of a new and distinct object, article or thing with a different chemical composition or integral structure;

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3.5 Format of a tax computation for a person – *the format should be replaced with the following*

Year of Assessment 2020/21

Income from employment	xxxx		
Less			
Exempt amounts	(xxxx)		
Final withholding payments	(xxxx)		
Liabe income from employment	xxxx		
Employment Income		xxxx	
Income from business	xxxx		
Less			
Exempt amounts	(XXXX)		
Final withholding payments	(XXXX)		
Amounts included in employment income	(XXXX)		
Liabe income from business	XXXX		
Less: allowable deductions	(XXXX)		
Business Income		XXXX	
Income from investment	xxxx		
Less			
Exempt amounts	(XXXX)		
Final withholding payments	(XXXX)		
Amounts included in employment income & business income	(XX)		
Liabe income from investment	XXXX		
Less: allowable deductions	(XXXX)		
Investment Income		XXXX	
Income from other sources	xxxx		

Less			
Exempt amounts	(XXXX)		
Final withholding payments	(XXXX)		
Amounts included in employment income, business income & investment income	(XXXX)		
Liabe income from other source	XXXX		
Less: allowable deductions	(XXXX)		
Other Income		XXXX	
Assessable Income (AI)			XXXX
Less			
Qualifying payments		(XXXX)	
Reliefs		(XXXX)	
Personal reliefs for Individuals Rs.3,000,000 (For resident individuals & Sri Lanka Citizens only)		(XXXX)	
Expenditure Relief		(XXXX)	
25% relief on Rent (For individuals only)		(XXXX)	
Taxable Income (TI)			XXXX
Income Tax (At Relevant Rate/s as per First Schedule to the Act)			XXXX
Less; Tax Credits			
Foreign		(XXXX)	
Local - Economic service charge brought forward / WHT / Installment payments		(XXXX)	
Balance Tax Payable/(Overpaid)			XXXX

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3.6.1 Exempt Income (Schedule 03)

d (ii) *should be amended as follows ;*

- II A provident fund approved by the Commissioner General; or a regulated provident fund;

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(h) *Following should be added to point (h)*

As per Inland Revenue Amendment Bill, w.e.f 01.04.2021,a gain made by a person on or after April 1, 2021 from the realisation 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

(i) *Should be removed*

(o) a dividend paid prior to 01.01.20020

(r) derived by a resident company should be replaced with “derived by any person”

the note heading should be changed as

"As per Inland Revenue Amendment Bill, following exemptions were proposed."

2. "on or after 01.01.2020" should be added to end.

3. The below point should be added ;

The interest accruing to or derived by any welfare society, on or after April 1, 2021

6, 7 & 8 "on or after 01.01.2020" added at the beginning

8. *following should be replaced*

Any amount derived on or after April 1, 2018, by any non-resident person as any payment for air craft, software licences or as for other related services from the Sri Lankan Airlines Limited;

9.(i) *should be amended as follows*

the sale of produce of an undertaking for agro farming of such person within 5 years of assessment commencing from April 1, 2019;

9 ii , iii, & iv are effective from "on or after 01.01.2020"

10. The gains and profits earned or derived by any person from-

- i. The sale of produce of an undertaking for agro farming of such person within 5 years of assessment commencing from April 1, 2019;
- ii. Providing information technology and enabled services on or after 01.01.2020, as may be prescribed;
- iii. Any service rendered in or outside Sri Lanka to any person to be utilized outside Sri Lanka, where the payment for such services is received in foreign currency and remitted through a bank to Sri Lanka on or after 01.01.2020;
- iv. Any foreign source [other than gains and profits referred to in item (iii)] where such gains and profits earned or derived in foreign currency and remitted through a bank to Sri Lanka on or after 01.01.2020

11. Any amount derived by any of below on or after 01.01.2020

- any non-resident person from laboratory services or standards certification services;
- any religious institution which is registered with the Ministry in charge of the subject of religious affairs, by way of grants or donations.

3.6.1 Exempt Income (Schedule 03 - Following should be added to the end

In addition to above exemptions, following were proposed in Budget 2021 and included in Inland Revenue Amendment Bill. These will be effective from 01.04.2021

- i. 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.
- ii. Gains made by a person on or after April 1, 2021 from the realization of land which were sold, exchanged or transferred to a Sri Lanka Real Estate Investment Trust (SLREIT) listed in Colombo Stock Exchange and licensed by the Security Exchange Commission of Sri Lanka.

- iii. Dividends or gains on the realization of units or amounts derived as gains from the realization of capital asset of a business or investment by a unit holder from SLREIT.
- iv. Interest accruing to or derived by any multi-national company on or after April 1, 2021 from the deposit opened by utilizing the foreign sources and maintained such deposit in foreign currency in any domestic bank, if such deposit is maintained to cover its import expenditure for that year of assessment.
- v. Interest or discount accruing to or derived on or after April 1, 2021 by any Samurdhi community-based banks established under the Department of Samurdhi Development, from security or Treasury bonds under the Registered Stocks and Securities Ordinance (Chapter 420) or Treasury bills under the Local Treasury Bills Ordinance (Chapter 417).
- vi. Gains from the realization of Sri Lanka international sovereign bonds issued by or on behalf of the Government of Sri Lanka and received or derived by a commercial bank or authorized dealer who made aggregate investment not less than USD 100 million in such bonds on or after April 1, 2021.
- vii. Gains and profits earned or derived by any Vocational Education Institution which is standardized under TVET concept (Technical and Vocational Education and Training) and regulated by the Tertiary and Vocational Education Commission, if such institution doubled their student intake for such year of assessment compared to the student intake in the year of assessment immediately preceding that year of assessment.

Exemption is available for a period of five years commencing on April 1, 2021. For the above purpose, if any such institution which doubled the student intake as provided in for first year and maintained the same student intake of the first year for the period of next four years shall be deemed as an institution which fulfilled the requirement of exemption in each year of such period of four years.

- viii. 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. 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 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 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. 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.

3.6.2. Final withholding payments - *Following para to be added to the end*

Note : Above payments will be changed with the removal of Withholding Tax.

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Question 06, Question 07 & Question 08 should be updated as follows

Question 06

Mr. Mohamed has following income for year of assessment 2020/21.

Income from a Business	Rs.	1,300,000
Interest income from a fixed deposit	Rs.	200,000
Employment income (Primary Employment)	Rs.	2,000,000

Calculate Mr.Mohomed's taxable income for the Y/A 2020/21.

Answer 06

	Rs.
Employment Income	2,000,000
Business Income	1,300,000
Investment Income	200,000
Assessable Income	3,500,000
Less: Reliefs	
Personal Allowance for Individuals	(3,000,000)
Taxable Income	500,000

Question 06

Bimal who is a resident individual works as a factory manager of a reputed manufacturing company. The following information relating to him is provided in respect of the year of assessment 2020/21. (hereinafter referred to as the 'year').

- (1) During the year, he has received the following from his employer: Further he has already submitted primary employment declaration to the employer.
 - Gross salary - Rs. 260,000/- per month.
 - Bonus of Rs.200,000/- was received in March 2021.
 - He lives with the family in a rented house near the factory, for a rent of Rs.35,000/- per month. The company reimburses the rent paid by him.
- (2) In addition, Bimal has an apartment in Colombo which is rated at Rs.240,000/-. This apartment is given on rent with furniture at Rs. 50,000/- per month to a foreigner. Rates at 30% and repairs to furniture amounting to Rs.26,000/- were paid during the year by Bimal.
- (3) His son Sandun has a savings account at a commercial bank and a gross interest of Rs.29,250/- was received during the year.
- (4) Bimal has received Rs. 221,500/- during the year as interest from Investment in Treasury Bills.
- (5) Bimal has invested in shares of some listed companies and he has incurred a loss of Rs.56,000/- during the year from trading shares.

- (6) Dividends received during the year were as follows: .
- | | |
|---|-------------|
| Gross Dividends received - out of profits | Rs. 277,500 |
| Gross Dividends - Out of dividend received from other companies | Rs. 27,000 |
- (7) During the year, he has incurred following expenses.
- | | |
|---|-------------|
| (i) Educational expenses for his son | Rs. 250,000 |
| (ii) Interest paid on a housing loan obtained from a state bank | Rs. 336,000 |
- (8) During the year Bimal has made the following donations: -
- Cash donation of Rs.50,000/- to his village temple.
 - Cash donation of Rs.100,000/- to National Kidney Fund.
- (9) He has paid income tax of Rs.10,000/- on the self-assessment basis.
- (10) APIT deduction for the year was Rs.45,000/-

From the foregoing information, You are required to:

Assess the following for Bimal for the year of assessment 2018/19.

- Taxable Income
- Gross income tax payable
- Balance tax payable, and
- Exempt Income, if any.

Answer 07

	Sch No	Rs.	Rs.
Employment Income	01		3,740,000
Investment Income	02		1,099,000
Child's income - assessed under son's name			-
Assessable Income			4,839,000
Less: Reliefs			
Personal relief		3,000,000	
Relief for Expenses (256,000 + 336,000)		586,000	
Relief for rent (600,000x25%)		150,000	
			(3,736,000)
Qualifying payments			
Cash donation of Rs.100,000/- to National Kidney Fund.		100,000	(100,000)
Cash donation-village temple -Not allowed			
Taxable income			1,003,000
Tax liability 1,003,000 x 6%			60,180
Less -Tax Credits			
APIT deducted		(45,000)	
Installment payments		(10,000)	(55,000)
Balance tax payable			5,180

Schedule 01-Employment income

Gross salary per annum (Rs.260,000x12)	3,120,000
Bonus	200,000
House rent benefit (Rs. 35,000x12)	420,000
	3,740,000

Schedule 02-Investment income

Rent income from apartment		
Rent Income (Rs. 50,000x12)		600,000
Less:25% allowance could be claimed under reliefs	(150,000)	
Note :Ignored actual expenses incurred, to get the 25% allowance		
Interest from treasury bills		221,500
Dividends		277,500
Dividends - received from other companies	Exempt	-
Investment loss on sale of quoted shares –Not allowed to deduct from liable income since income is exempted		-
		1,009,000

Question 08

ABC (Pvt) Ltd is a company engaged in the manufacturing of shoes to local market. Total turnover from the trade for the year ended 31.03.2021 is Rs. 558 million and the equity capital of the company as at 31.03.2021 is Rs. 10,000,000 (share capital + Reserves). The income statement for the financial year ended 31.3.2021 and other related details are as follows.

Gross profit from Trade		42,300,000
Rent income		6,000,000
Dividend - gross		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 improvements	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	
ESC unclaimable	2,200,000	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 18/19, loan balance as at 31.03.2020 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 2020 (Rs.)	Additions (Rs.)	Disposals (Rs.)	Balance as at 31st March 2021 (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 2020 (Rs.)	Depreciation for the year (Rs.)	Disposals (Rs.)	Balance as at 31st March 2021 (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

3. A motor Lorry purchased in the year of assessment 2017/2018 has been disposed during the year for Rs. 1,300,000. The value of accumulated provision for depreciation in the motor vehicle depreciation account is Rs. 1,500,000.
4. After disposing the above motor lorry, company purchased a new lorry for the value of Rs. 6,400,000. The total sale proceeds of the previous lorry utilized for this purpose and balance was capitalized through a five-year leasing arrangement. The monthly lease rental is Rs. 130,000 and company has paid 10 instalments during the year. In addition to the lease interest, Rs. 1,600,000 was charged as provision for depreciation on this asset.
5. Balance motor vehicle additions represents a car purchased for the use of managing Director.
6. A patent right (intangible asset) was acquired by the company during the year for Rs. 2 million. Company has amortised the cost of acquisition of the patent right to the cost of sales at 20% per annum.
7. Assume all other assets as at 01.04.2020 were acquired/constructed during the year of assessment 2017/18.
8. During the year, an old shed attached to the building was removed and replaced it with a modern brick storage facility. The company has spent Rs. 600,000 to build a new storage facility and also incurred Rs. 60,000 on repairs (essentially some plumbing and electrical work).
9. The company has rented out a shop from Mr Kumara. During the year of assessment the company paid Rs. 840,000 as rent. The balance mentioned under rent expenses was paid to the stores manager's residence (Rs. 42,000 monthly). His salary per month was Rs. 170,000. This benefit is not considered for employees' income.
10. Bad and Doubtful Debts
Out of the Rs. 480,000 charged to the P & L, Rs. 280,000 is a provision made for doubtful debts while the balance was bad debts written off during the year.
11. ESC paid for Y/A 2017/18 amounting to Rs.2,200,000 was written off due to lapse of claimable period.
12. Donation represents a cash donation to an approved charity maintaining a children home.
13. Company has incurred Rs.5, 000,000 trading loss for the year of assessment 2019/2020 and has been brought forward to this year.

Calculate the, Assessable income, Taxable income and Income tax payable by the company for the year of assessment 2020/2021.

Answer 08

Tax Computation for the Year of assessment 2020/21.

					+	-
					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= $1,300,000 - (4,000,000 - (4,000,000 \times 20\% \times 3))$ = $1,300,000 - 1,600,000$ loss = $(300,000)$						300,000
Accounting Depreciation					4,745,000	
Amortisation					400,000	
<u>Capital Allowances</u>	<u>Year of Aquired</u>	<u>cost</u>				
Building	17/18	15,000,000	10%			1,500,000
Machinery	17/18	21,000,000	33.33%	fully claimed		-
Machinery	20/21	3,675,000	5 years			735,000
Computers	17/18	1,450,000	25%			362,500
Computers	19/20	120,000	5 years			24,000
Locally dev. Software	17/18	500,000	100%	fully claimed		0
Disposed Lorry	17/18	4,000,000	no CA			-
Vehicles - Balance	17/18	2,650,000	20%			530,000
Leased lorry	20/21	6,400,000	5 years			1,280,000
Car	20/21	2,000,000	no CA			-
Furniture	17/18	1,240,000	20%			248,000
Furniture	20/21	50,000	5 Years			10,000
Intangible asset	20/21	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 31.03.2020		10,500,000			
	5% of WDV	525,000			
Actual cost		600,000			525,000
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	
ESC Unclaimable				2,200,000	
Donation				1,000,000	
Interest paid (application of section 18)					
Share Capital + Reserves				10,000,000	
A X B (manufacturer B=3)			(10,000,000 x 3) = 30,000,000		
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)		30,000,000 x 0.14		4,200,000	
Not allowable (C/F)		7,000,000-4,200,000		2,800,000	
Assume all other expenses incurred in production of Income and uncontrolled transactions.					
				29,179,000	8,934,500
Business Profit before adjusting losses				20,244,500	
less : B/F losses				(5,000,000)	
Business Income				15,244,500	
Investment Income - (note 1)				3,320,000	
Assessable Income				18,564,500	
Qualifying payments					
limited to 1/5 of TI or Rs. 500,000				(500,000)	
Taxable Income				18,064,500	
Tax liability 15,244,500 x 18% = 2,744,010					
1,720,000 x 14% = 240,800					

1,100,000 x 24% = 264,000	3,248,810	
Less - Tax Credits	-	
Balance Tax Payable	3,248,810	

Note 1 - Investment Income

Dividend	1,720,000
Interest	1,600,000
Investment Income	3,320,000

CHAPTER 04

Taxation of Miscellaneous Undertakings

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4.1.1 Taxation of a Partnership (Section 53 to 56)

2nd point should include " Upto 31.12.2019" at the beginning

3rd point should start with following

Every partnership shall be liable to pay income tax with effect from January 1, 2020 at the rate specified, separately from its partners.

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9th Point - should be amended as follows;

The partners (and not the partnership) are liable to pay tax with respect to the taxable income of the partnership. Upto 31.12.2019, each partner's share of the partnership income is subject to withholding tax at the rate of 8% which becomes creditable to the partners against their ultimate tax liability on that partnership income.

10th Point - should be removed

4.1.1 Following should be added

Note: As per amendments proposed to Inland Revenue Act,, WHT of 8% on any partner's share of partnership income is replaced with a tax on partnership with effect from 01.01.2020.

Applicable tax rates are as follows.

If taxable income consists of Gains on realization of investment assets,

Taxable Income

Tax Rate

Gains on realization of investment assets

0%

Balance Taxable Income Not exceeding Rs. 1,000,000

0%

Exceeding Rs. 1,000,000 6% on the excess of Rs. 1,000,000

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4.1.2 Following to be added to the last point

However, there is no right to a refund, but with a right to carry forward to the next succeeding year to deduct as a tax credit in that year.

This part is newly added thereafter

As per the changes proposed to the Inland Revenue Act, No. 24 of 2017 (IRA), pending formal amendments being made to the Act, WHT of 8% on partners' share of partnership income is replaced with a tax on partnership w.e.f. 01.01.2020. Income tax liability of the partnerships and partners in a partnership shall be computed in accordance with the instructions set out below.

1. 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, no changes to the computation of Income Tax Liability on the realization of any investment asset of the partnership.

2. Subject to the provisions of IRA, the partnership is allowable to deduct any qualifying payments made during the year of assessment.

Question 01

Mr. A and Mr. B are equal partners in a partnership. For the year of assessment 2020/2021, the partnership has business income of Rs. 20 million and rent income of Rs. 500,000 received.

Calculate tax payable by partnership & Mr. A.

Answer 01

Business income of the partnership	=	Rs.	20,000,000
Investment income of the partnership	=	Rs.	500,000
Assessable income		Rs.	<u>20,500,000</u>
Less Allowance	=	Rs.	(1,000,000)
Taxable income	=	Rs.	<u>19,500,000</u>
Tax @ 6%	=	Rs.	1,170,000
Partnership share of Mr. A	=	Rs.	10,250,000
Partnership share of Mr. B	=	Rs.	10,250,000

Tax payable by Mr. A

Partnership share of Mr. A	=	Rs.	10,250,000
Less: Allowance for individuals	=	Rs.	<u>(3,000,000)</u>
Taxable Income	=	Rs.	<u><u>7,250,000</u></u>

Tax Payable

@ the rate of 6% (3,000,000 x 6%)	=	Rs.	180,000
@ the rate of 12% (3,000,000 x 12%)	=	Rs.	360,000
@ the rate of 18% (1,250,000 x 18%)	=	Rs.	<u>225,000</u>
Total tax	=	Rs.	<u>765,000</u>
Less: credit for partnership tax (1,170,000 x 50%)	=	Rs.	<u>(585,000)</u>
Balance payable	=	Rs.	<u><u>180,000</u></u>

4.2.2.1.1 Taxation of trusts – Following should be added to the end

As per Inland revenue Amendment Bill, tax rate on other taxable income will be reduced to 18% w.e.f.01.01.2020

Question 02

Annual fee – Rs. 1 Mn

Following should be amended

Rent – 40 Mn

Has the right to demand the payment of up to LKR 10 Mn

2018 should be 2020 and 2019 should be 2021

Question 02 Answer to be replaced as follows

Person	Rental income	Deductions	Relief	Taxable income
Varuni (individual)	10 million	250,000	3,000,000	6,750,000
Thanuja (individual)	10 million	250,000	3,000,000	6,725,000
Trust (entity)	20 million	500,000	-	19.5 million

4.4 Non-governmental organizations (NGO)

Following should be added to the end.

As per amendment proposed to Inland Revenue Act, tax rate will be reduced to 24% w.e.f. 01.01.2020

Question 3 and Answer 3 - *should be replaced with following;*

XYZ Non-governmental organization has received the following income for the year of assessment 2020/2021.

Donations received from foreign donors Rs. 3,000,000

Interest from Fixed Deposits Rs. 350,000

Calculate the tax liability of NGO for the Y/A 2020/2021.

Answer 3

taxable profit on donations (Rs. 3,000,000 x 3%)	Rs. 90,000
Investment Income - Interest	Rs. 350,000
Taxable income for the year	Rs. 440,000
Tax on taxable income at 24%	Rs. 105,600

4.5 Charitable Institutions

Following should be added as 2nd para

“charitable purposes” means a purpose for the benefit of the public or any section of the public in or outside Sri Lanka, of any of the following categories:

- (a) the relief of poverty;
- (b) the advancement of education or knowledge other than by any institution established for business purposes or by any institution established under the Companies Act;
- (c) activities for the protection of the environment or eco-friendly activities;

- (d) the advancement of religion or the maintenance of religious rites and practices or the administration of a place of public worship;
- (e) any other purpose beneficial to the community, not falling within any of the above categories

Question 4

Y/A should be 2020/21

CHAPTER 05

Obligations and Procedures

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5.1.1.1 Due Dates

Following should be removed

If any person has obtained approval to apply a different Y/A under sec. 20, quarterly payment should be made before 15th day following end of each quarter.

5.1.1.2

Note: WHT (w.e.f.01.04.2020 , AIT or APIT.) credit available for the year of assessment from the beginning of the Y/A up to the date of installment is payable [eg. August 15, 2018] should be deducted when calculating installment payment.

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Question 1

Y/A 2018/19 to be replaced with Y/A 2020/21

WHT to be replaced with AIT

15.11.2018 to be replaced with 15.11.2020

Answer 1

Due date ± 15th November 2020

5.1.2 Tax payable on assessment

(eg. for Y/A 2020/21 - 30.09.2021)

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5.2 Furnishing of Returns

5.2.1.1 Who shall furnish return of Income?

i.e. for Y/A 2020/21 return should be submitted on or before 30.11.2021.

- 1 ii. applicable prior to 01.04.2019

Note: With the increase of personal relief and removal of PAYE by proposed changes, above (ii) will not be applicable from Y/A 2019/20.

Question 2

- (i) Y/A should be 2020/21

Answer 2

- (i) Y/A should be 2020/21 and furnishing date should be 30.11.2021

5.2.5 Information to be furnished along with return [Section 93 (2)]

WHT Certificates (from 01.01.2020 AIT & APIT certificates)

5.4.1 Introduction

- (a) (vi) *should be replaced with following*

an individual specified by the Commissioner-General of any other kind; (Gazette 2194/50 dated 03.09.2020)

5.4.3 Appeal from Administrative Review. (Section 140)

Following to be added to point 2 (b)

(This has been extended to seven months w.e.f. 01.04.2021)

Following to be added to point 5

(w.e.f. 01.04.2021, within 30 days from the date of the decision of the Commissioner-General.or within 30 days from the date on which the period of seven months lapsed since the request for administrative review was made)

- (6) Giving notice of appeal to be replaced with "filling a petition of appeal".

5.6 Refunds

Following should be added

- Where the Commissioner-General is required to refund a refundable amount under the Act to a taxpayer, an interest shall be paid on such refundable amount to the taxpayer from the date of the refund claim filed until the date on which the refundable amount is paid. No interest shall be payable in respect of a refund that is based on a claim for refund and is paid to the taxpayer within six months of the filing of the claim for refund.
- The interest rate shall be 0.5% per month or part month, computed monthly.

Chapter Introduction - *PAYE Tax to be replaced with Advance Income Tax (AIT)*

6.1 Withholding Tax - *should be replaced with the following*

6.1.1 Introduction of Withholding Tax

When a person makes a payment to any other person and if such receipt is generally liable for income tax in the hands of the recipient, instructions would be given to the payer to deduct a certain amount of taxes out of the amount payable and remit such deducted tax to the Revenue Authority. This mechanism is called the Withholding Tax System (WHT). This is a Tax Deducted at Source, where some countries term it as TDS.

6.1.2 Different Withholding Taxes in Operation

There are number of withholding taxes prevailing in Sri Lanka. The main withholding tax provisions in relation to income tax are discussed under three categories.

- I. Withholding by employers (Section 83)
- II. Withholding from investment returns (Section 84)
- III. Withholding from service fees and contract payments (Section 85)

6.1.2.1 Withholding from Remuneration of Employees by Employers (Section 83)

As per section 83, an employer shall withhold tax in the circumstances specified by the Commissioner-General, from a payment that is to be included in calculating the taxable income of an employee. This system was called "Pay As You Earn (PAYE).

As per amendments proposed to the Inland Revenue Act, Requirement to deduct WHT on remuneration was removed w.e.f. 01.01.2020.

However, Retaining part of the payment of terminal benefits in lieu of income tax by the employer/ETF/ Provident Fund is required.

An employer shall deduct an Advance Personal Income Tax with effect from April 1, 2020 on any payment which falls under employment income, if such

employee-

- (a) is a non-resident or non-citizen of Sri Lanka; or
- (b) is a resident and citizen of Sri Lanka who gives his consent,

as specified by the Commissioner - General. (refer 6.1.2.1.1)

Section 5 of Act explains the items to be included to employment incomes and items to be excluded from employment income.

Following interpretations are given in Section 195.

(a) **™Employment™** means

- (i) a position of an individual in the employment of another person;
 - (ii) a position of an individual as manager of an entity;
 - (iii) a position of an individual entitling the individual to a fixed or ascertainable remuneration in respect of services performed;
 - (iv) a public office held by an individual;
 - (v) a position of an individual to whom any payment is made or due by or from an employer or who receives any other benefit as an employee or in a similar capacity;
 - (vi) a position as a corporation or company director; and
- (b) includes a past, present or prospective employment;

™employee means an individual engaged in employment;

"employer means the person who engages or remunerates an employee in employment or pays a pension or other remuneration to a former employee or to any other person for the past services of such former employee, and includes in the case of an entity specified in Column I hereunder, the person specified in the corresponding entry in Column II:

Column 01	Column 02
A company or a body of persons whether corporate or unincorporated	Director, Secretary, Manager or other principal officer of such company or body of persons
A partnership	The precedent partner or any active partner resident in Sri Lanka, and in the case of a partnership of which no active partner is resident in Sri Lanka, the agent of such partnership in Sri Lanka
A trust	The trustee or trustees of the trust
A non- resident person	The agent or attorney of such person in Sri Lanka
A Government Institution	Accountant or Director of Finance or Administrative Officer or Head of the Department or Institution, or Secretary to the Ministry or Chairman of Commission or Committee or any other person who pays remuneration

6.1.2.1.1 Advance Personal Income Tax (APIT)

As per the guide line issued by IRD for the 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 with his consent, at the time of such remuneration is paid or credited. Consent of the respective employee is not required to deduct APIT from the Payments if such employee is a non-resident employee or if the payment is a terminal benefit.

Deduction of tax from remuneration should be made by applying the appropriate tax table specified by the CGIR.

Type of Income	Applicable Table
(a) regular profits from the employment, of any resident employee (who has given consent) or any non-resident employee but citizen in Sri Lanka who has furnished a Primary Employment Declaration	Tax Table 01
(b) Lump-sum payments (Eg. Bonus)	Tax Table 02
(c) Once-and-for-all payment (Terminal Benefits) irrespective of the consent of the employees	Tax Table 03
(d) where the payment received by the Non-Resident employees other than citizens in Sri Lanka irrespective of their consent	Tax Table 04
(e) where the monthly regular profits of an employee from a primary employment is less than LKR 250,000 but the cumulative profits from the primary employment up to any month in the year of assessment exceeds LKR 3,000,000 due to payment of higher remuneration in certain months	Tax Table 05
(f) payment or reimbursement of the employee's tax liability on his income from employment by the employer	Tax Table 06
(g) remuneration of any employee, who has not furnished a Primary Employment Declaration, or who has more than one employment	Tax Table 07

6.1.2.1.2. Primary Employment

- The primary employment of an employee for a year of assessment is the employment with respect to which the employee has provided an employer with a declaration (Primary Employment Declaration) for that year.

- An employee shall furnish an employer, with a declaration nominating the employment as the employee's primary employment, where the monthly regular profits from such primary employment exceeds or deem to be exceed Rs.250,000 per month or Rs. 3,000,000 per year of Assessment.
- A declaration must be signed and dated by the employee and the employer, and may relate to one or more years of assessment.
- An employee must not have more than one primary employment at any one time.
- An employee may withdraw such declaration only at the end of a year of assessment, unless the primary employment is ceased.

6.1.2.1.3 Secondary Employment(s)

With respect to an employee, Secondary Employment means any employment that is not the primary employment of the employee.

6.1.2.1.4 Credit for tax deducted under APIT

Income tax deducted under APIT is an advance payment of income tax. Employee is entitled to a set-off against the tax payable by him for that year of assessment on the production of the employee certificate of tax deduction (T10 certificate).

6.1.2.1.5 Certificate of Tax deduction

A certificate of tax deduction prepared and served by an employer on an employee under Section 87 of the Act must be in the required form specifying

- the name, employment number and national identity card number of the employee;
- whether the employment is or was a primary employment or a secondary employment with respect to the employee;
- the amount of payment received by the employee from the employment during the year of assessment; and
- the amount of tax deducted from the payments.

6.1.2.1.6 Refund of tax deducted in excess of the liability

Where any person has paid any income tax in excess of the amount which he is liable to pay, due to over deduction of APIT such person is entitled to a refund on the excess tax on a claim made in writing within four years of the date of payment.

6.1.2.1.7 Obligations of an employer under APIT scheme

- Deduct income tax from the gross remuneration of the employees, who are liable to pay income tax with his consent according to tables provided by the Commissioner General of Inland Revenue.
- Remit the taxes deducted in any month on or before the 15th of the following month.
- Maintain proper records on the specified forms in respect of each employee who is liable tax and given consent and retain all records for a period of five years from the end of Year of assessment to which such records relate.
- Furnish annual declaration on or before the 30th of April of immediately succeeding year.
- Issue a certificate of tax deduction to employees (T10 Certificate) on or before 30th of April immediately succeeding the end of the year of assessment or within 30 days from the cessation of employment if the employee has ceased his employment.

6.1.2.1.8 Employer's Annual Statement

An annual statement prepared and filed by an employer with the Commissioner General must be in the required form specifying -

- the name, employment number and national identity card number of each employee employed by the employer during the year ;
- whether the employer is a primary employer or a secondary employer with respect to such employment
- with respect to each employee, payments made by the employer during the year ;
- the amount of tax withheld from the payments.

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

WHT should be deducted at the time of payment on following payments at respective rates.

	Type of Payment	WHT rate
a	Interest or discount paid to a person (other than to an individual who is a senior citizen in relation to a bank deposit account)	5%
b	Interest paid to a senior citizen	5% on amount exceeds Rs.1,500,000
c	Rent paid	10%
d	Dividend, charge, natural resource payment, royalty, premium or retirement payment or pays amounts as winnings from a lottery, reward, betting or gambling	14%
e	Partner's share of partnership income	8%
f	Sale price of any gem sold at an auction conducted by National Gem and Jewellery Authority.	2.5%
g	Service fees paid to resident individuals	5%
h	Payment of service fee or an insurance premium with a source in Sri Lanka which is made to a non resident person	14%
i	Payments made to non resident persons conducting <ul style="list-style-type: none">• transport business as specified in section 73(1)(h).• telecommunication business as specified in section 73(1)(i)	2%

Note : *As per the amendments proposed to Inland Revenue Act, Requirement for deduction of WHT on any payment which is due and payable to any of the following persons is removed with effect from January 01, 2020.*

1. Resident person in respect of the dividend, interest, discount, charge, natural resource payment, rent, royalty, premium or retirement payment received.
2. Resident partner in respect of the partner's share of profit allocated by the partnership
3. Resident individual in respect of any service fee paid.

As per the circular No.SEC /2020/04 issued by the Department of Inland Revenue, following provisions are applicable w.e.f.01.04.2020.

6.1.2.2.1. Payments of whom subject to WHT

- i. WHT shall be deducted on any of above payments which has a source in Sri Lanka except the exempt amounts paid to any non-resident person.
- ii. Payments to any person (Resident or non-resident) of any amounts as winning from lottery, reward, betting or gambling, or Sale price payable to the seller of any gem sold at an auction conducted by the National Gem & Jewellery Authority are liable to be deducted WHT.

6.1.2.2.2. Types of Payments and WHT Rates

- i. Payments of any amounts as winning from lottery, reward, betting or gambling to any person is liable to WHT at 14%. However, any winning from a lottery, the gross amount of which does not exceed Rs. 500,000 is not subject to WHT.
- ii. Sale price payable to the seller of any gem sold at an auction conducted by the National Gem & Jewellery Authority is liable to WHT at 2.5%.
- iii. Payment of any amounts by a resident person as charge, natural resource payment, rent, royalty, premium, retirement payment and other similar payments (excluding exempt amounts) which has a source in Sri Lanka, paid or payable to any non-resident person is liable to WHT at 14%.

-
- iv. Payments of any amounts as interest (excluding exempt interest), discounts which has source in Sri Lanka, payable to any non-resident person is liable to be deducted of WHT at 5%.
 - v. Payments by a resident person to a non-resident person with respect to land, sea, air transport or telecommunication service in terms of section 85(2) and Extraordinary Gazette Notification No. 2064/51 dated April 01, 2018 is liable to WHT at 2%, subject to the provisions of relevant Double Tax Avoidance Agreement (DTAA).

Exempt Income

- i. The interest accruing to or derived by any person outside Sri Lanka on any loan granted to any person in Sri Lanka or to the Government of Sri Lanka.
- ii. Dividend paid by a resident company to a member to the extent that dividend payment is attributable to, or derived from, another dividend received by that resident company or another resident company.
- iii. Dividend paid by a resident company to a member to the extent that dividend payment is attributable to, or derived from, another dividend received by that resident company or another resident company that was subject to withholding under section 84.
- iv. Dividend paid by a resident company to a member who is a non-resident person.
- v. Dividend paid by a resident company which is engaged in any one or more of the following business in accordance with the provisions of the PART IV of the Finance Act, No. 12 of 2021 and within the meaning of an agreement entered into with the Board of Investment of Sri Lanka established under the Board of Investment of Sri Lanka Law, No. 4 of 1978:-
 - a. Entrepot trade involving import, minor processing and re-export;
 - b. Offshore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing the same into Sri Lanka;
 - c. Providing front end services to clients abroad;
 - d. Headquarters operations of leading buyers for management of financial supply chain and billing operations;
 - e. Logistic services such as bonded warehouse or multi-country consolidation in Sri Lanka.
- vi. Amounts derived by
 - a. The Government of a foreign country of foreign territory to the extent specified under a diplomatic immunities law or a similar law;
 - b. An international organization to the extent specified under a diplomatic immunities law or a similar law or an agreement between the organization and the Government of Sri Lanka, provided that the exemption provided under the agreement shall be broader than that provided under diplomatic immunities law or a similar law.
- vii. Any amount derived by any non-resident person from laboratory services or standards certification services.
- viii. Any winning from a lottery, the gross amount of which does not exceed Rs. 500,000;

Advance Income Tax (AIT)

AIT is deductible on dividend, interest, discount, charge, natural resource payment, rent, royalty, premium or similar payments made to any resident person subject to the consent given by such person. If the consent is not granted, in no case AIT could be deducted.

1. Declaration to the Withholding Agent (WHA)

The resident person who receives or derives any amount of above payments (excluding exempt amounts) which has source in Sri Lanka from the WHA/Payer, may make a declaration in which he may express his consent to deduct AIT to the payer.

2. Rates of Deduction

AIT is deductible by applying the relevant income tax rates on the relevant amounts declared by the person in their declarations as given below.

i. If the recipient is an individual

Amount of Payment (Rs.)		Tax Rate
For annual deductions (Y/A)	For Monthly Deductions	
Maximum up to Rs. 3,000,000	Maximum up to Rs. 250,000	6%
Next, but Maximum up to Rs. 3,000,000	Next, but Maximum up to Rs. 250,000	12%
Balance	Balance	18%

ii. If the recipient is a person other than resident individual.

Type of Entity	Tax Rate	Amount of Payment (Rs.)*
Partnership	6%	
On dividend to resident company	14%	
Charitable Institution	14%	
Employees Trust Funds, Provident Fund, Pension Fund or Terminal Funds	14%	
Other Resident Entities Including Resident Company	24%	

**(Amount of payment for which AIT to be deducted must be specified by the declarant as applicable. The declarant can exclude the exempted amounts for AIT deduction purposes)*

6.1.2.2.3 Time of Tax Deduction

Tax should be deducted at the time, that the relevant amount is paid, credited, re-invested, accumulated, capitalized or made available to the person as the case may be; by the payer / withholding agent in making such payments.

6.1.3 Obligations of withholding agents (WHA)

- All the withholding agents are required to obtain a registration number from the CGIR not later than 30 days prior to commencement of deduction.
- The tax should be deducted on the gross amount of the invoice value including all taxes other than VAT.
- The tax withheld should be remitted to the CGIR within 15 days from the end of the month.
- Withholding agents are required to issue withholding / AIT certificate to withholder on the amount of tax deducted. This certificate covers calendar month and required to be issued within 30 days from the end of the month.
- Withholding agents are required to furnish the annual statement for each year of assessment within 30 days from end of the year regardless of whether tax has been deducted or not.

However, WHT due on the payments to non-resident persons will be collected as informed in the circulars and notices issued by the Commissioner General of Inland Revenue in respect of the furnishing of Tax Clearance Certificates to banks for outward remittances.

Certificate of Deduction

Every person / WHA who has deducted WHT or AIT is required to issue a certificate of WHT or AIT deduction : as the case may be : to every person in the specified format. The WHT / AIT certificate shall cover a calendar month and shall be served within 30 days after the end of the month.

False or Misleading Statement

A declaration, statement or certificate provided to a withholding agent is treated as a statement made to a tax official for the purpose of section 181 of the IRA and penalty will be imposed for false or misleading in a material particular.

Records to be Maintained by the Payer / WHA and Their Obligations

- i. The WHA who is deducting Withholding Tax or Advance Income Tax shall be a registered Withholding Agent under the Commissioner General of Inland Revenue. If the registration has not obtained, the person is required to obtain a registration number from the Commissioner General not later than 30 days prior to the commencement of deduction of WHT / AIT.
- ii. For the purpose of deduction of AIT, separate registration is not required to any WHA, he can continue under the same registration of WHT Agent.
- iii. Such Persons shall keep proper records (including the declarations received by them) as per the annexure 3 and shall be furnished at the request of tax official or for the inspection of the tax official.
- iv. Schedules to the Annual Statements should be submitted on WHT and AIT deducted and such schedules are required to be furnished in electronic form. However, if number of WHT / AIT deducted persons (taxpayers) are less than 20, hard copies may be submitted.



Question 1

- (i) On what grounds could an employee claim the tax deducted by the employer on his employment income?
- (ii) Who can submit annual statement in hard copies?
- (iii) What is the rate of WHT applicable on lottery prizes?
- (iv) What is the applicable WHT rate on Royalty paid to a person outside Sri Lanka?



Answer 1

- (i) An employee is entitled to a set-off the tax deducted by the employer on his employment income against the tax payable by him on taxable income for that year of assessment.
- (ii) For the purpose of AIT, is separate registration required to a person registered for WHT. If number of WHT/AIT deducted persons are less than 20, they can submit hard copies.
- (iii) WHT applicable on lottery prizes; -14%
- (v) The applicable WHT rate on royalty paid to a person outside Sri Lanka is 14%.

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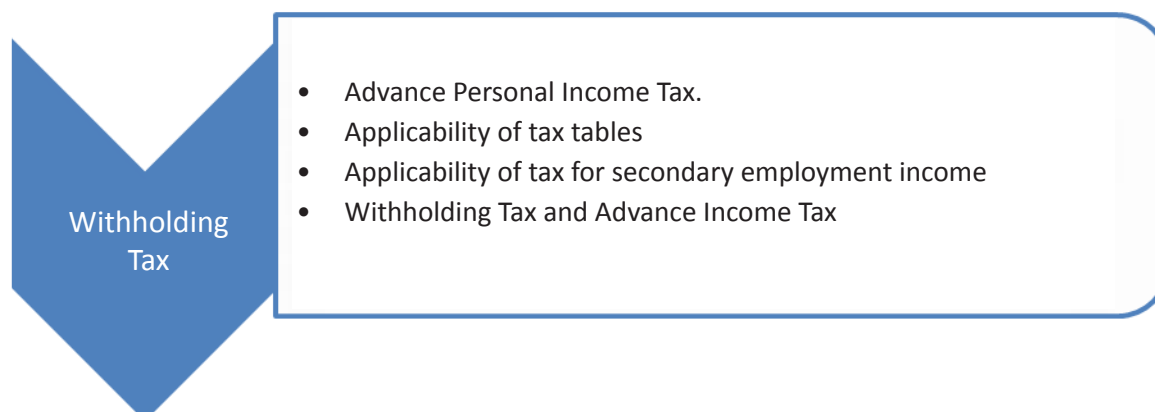
6.2 Capital Gains

Following to the be added to the end.

Note: As per proposed amendments, w.e.f. 01.04.2021 this will be changed as follows.

Every person with taxable income consisting of a gain from the realisation of an investment asset shall file with the CGIR a capital gains tax return within thirty days after the end of the relevant calendar month in which the realisation occurred.

Summary - to be updated with WHT



Exercise and Solution - to be replaced with following

Exercises

- (i) Mr A and Mr B, directors of XYZ (Pvt) Ltd are working fulltime for the company and are receiving monthly remunerations of Rs. 250,000 and Rs. 320,000 respectively. Further both directors have produced their primary employment declarations to the company. The other director Mr C is not working fulltime for the company & receives an amount of Rs 50,000 per month as the Board meeting participation fee. His primary employment income Rs. 200,000 per month. He has not submitted primary employment declaration to the company. All have given consent to deduct tax.

How to apply tax tables for each director's remuneration?

- (ii) List the obligations of an employer in operation of APIT system?
- (iii) Looking at the tax angle, what are the pros & con of sale of gems at any auction conducted by the National Gem and Jewellery Authority as against selling in the open market?

Solutions

- (i) Mr A - To be applied the relevant tax table.(The tax is zero as the monthly remuneration is not more than Rs 250,000).
Mr B - To be applied the relevant tax table.(Table No. 01).
Mr C - To be applied the table 7 (as the monthly remuneration is below Rs 250,000 the applicable rate is 6%).
- (ii) The obligations of an employer in operation of AIT system;
- keep a proper record of payment of such remuneration;
 - take all reasonable precautions for the safe custody of all employees' declarations, pay sheets, receipts for payment of remuneration to employees and all other accounting records pertaining to the remuneration of the employees and to the income tax deducted and paid to the Commissioner-General ;
 - retain all such records for a period of not less than five years after the end of the year of assessment to which such records relate ;
 - permit any officer authorized in writing by the Commissioner-General to inspect any records maintained by him and referred to in paragraph (a) or (b) or (c).

- (iii) From the tax angle, the pros & con of sale of gems at any auction conducted by the National Gem and Jewellery Authority against the open market are as follows;

Pros;

- Once the WHT of 2.5% is paid on the said income, such tax can be deducted as a credit.,

Cons;

Immediate payment of a tax of 2.5%.

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CHAPTER 07

Other Taxes

Chapter Introduction

This lesson is to give the knowledge on following taxes.

- Value Added Tax (VAT)
- Excise Duty
- Share Transaction Levy (STL)
- Stamp Duty
- Tourism Development Levy (TDL)
- It mainly covers registration requirements & methods, basis of computation, other obligations of non-complex situations including computation of tax and other important points.
- Weightage of the syllabus is 15%.

Learning Outcomes

At the end of each topic you should be able to;

- Assess the applicability of different taxes
- Explain the imposition, registration, computation and different obligations of VAT
- Explain the basics of the S-VAT scheme
- Identify VAT on Financial Institutions
- Analyze VAT issues in a business environment
- Assess tax liability of Excise Duty, Share Transactions Levy Stamp Duty & Tourism Development Levy
- Discuss provisions of Acts regarding Excise Duty, Share Transaction Levy, Stamp Duty & Tourism Development Levy

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7.1.2.1 Liability of Value Added Tax (Section 2)

Note: This threshold also increased to Rs. 75Mn. per quarter or Rs. 300Mn per annum w.e.f. 01.01.2020

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7.2.3 Exempt Supplies (Section 8)

- (b) Following to be added to the exempt supplies list
Condominium housing units w.e.f. 01.12.2019

7.3.1 Computation of Output Tax

Note 1 : w.e.f. 01.11.2019 following rates are applicable.

Rs. 100 per each garment other than panties, socks briefs and boxer shorts.

Rs. 100 for 6 pieces of panties, socks, briefs and boxer shorts.

However above rates were revised again w.e.f. 01.01.2021, as follows.

Rs. 25/- per piece.

Question 10

What are the due dates of settling VAT for the quarter ending 31.12.2020?

Answer 10

- 20.11.2020
- 20.12.2020
- 20.01.2021

Question 11

The period end should be 31.12.2021

Output amounts to be changed as follows;

Supplies to VAT registered persons; Liable for VAT	31,050,000
Supplies to non VAT registered persons; Liable for VAT	47,250,000
Purchase of Raw materials supported with Tax Invoices	5,130,000
VAT payable for the quarter ended 31.03.2021	

Answer 11

to be replaced as follows;

(i) M/S Hot Hot (Pvt) Ltd.

Computation of VAT for the Quarter Ended 31.03.2021

Output VAT

On supplies liable at standard rate of 8%

$$(31,050,000 + 47,250,000) \times \frac{8}{108} = 5,800,000$$

Less: Input VAT

Paid at Standard Rate:

Lorry	exempted	
Staff meals	Not allowed	
Raw materials	$(51,300,000 \times 8 / 108)$	= 3,800,000
Raw materials without tax invoices –	Not allowed	
Electricity	VAT Exempted	
Salaries & Wages	No VAT	
Sub Total		(3,800,000)
Amount Claimed for the Quarter;		
Balance Payable (Due on or before 20.04.2021)		5,130,000

Note:

If monthly payments have been made for January and February those to be considered as instalment payments.

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Question 12

In the above question No. 11 in addition to the supplies (output) mentioned, if there were exports of Rs. 6,800,000 and exempt supplies of Rs. 16,995,000 how should the input credit be computed?

Answer 12 – to be replaced as follows;

Value of Supplies & Input VAT;

	Value	VAT
Liable at Standard Rate 8%	78,300,000	5,800,000
Exports	6,800,000	-
Sub Total	85,100,000	5,800,000
Exempted Supplies	16,995,000	-
Total	102,095,000	5,800,000
Input Tax attributable to liable supplies $85,100,000 \times \frac{3,800,000}{102,095,000}$		(3,167,442)
Balance Tax to be paid		2,632,558

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7.7 Nation Building Tax (NBT) and

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7.9 Economic Service Charge (ESC) will not be charged for at the examination.

Newly introduced areas for Other Taxes are Excise Duty, Share Transaction Levy (STL), Tourism Development Levy - Will be tested with effect from January 2022 examination.

7.10 Share Transaction Levy (STL)

Imposition

Finance Act No. 5 of 2005 was enacted with effect from 01.01.2005 to charge a levy on share transactions taking place in the stock exchange. The levy is charged on the seller on disposal value of the share and on the buyer on the purchase value of the share. As this is purely based on the transaction taking place in the stock exchange, revenue generated fluctuates in accordance with the volume of the share market dealings.

Applicable rates

Period	Rate
From 01 January 2005 to 31 December 2010	0.2% of turnover
From 01 January 2011 to 31 December 2015	0.3% of turnover
01 January 2016 to 31 March 2016	Abolished
From 1st April 2016 to date	0.3% of turnover

Payments and returns

The Share Transaction Levy shall be collected by the relevant stockbroker, stock dealer or custodian bank as the case may be, who is responsible for the settlement of such share transaction.

The Share Transaction Levy collected shall be paid to the stock exchange through which the share transaction took place, at the time of making settlement of such share transaction by the respective stockbroker, stock dealer or custodian bank, as the case may be. The Stock Exchange shall remit the levy so collected to the Commissioner-General of Inland Revenue within three working days from the date of such settlement.

The Stock Exchange shall furnish to the Commissioner-General, a monthly statement giving the total turnover in respect of which the Share Transaction Levy has been remitted to the Commissioner-General within fifteen days from the last day of each month.

Default Levy

Any stockbroker, stock dealer or custodian bank as the case may be, who fails to pay the total amount of the Share Transaction Levy, shall be deemed to be a defaulter, and where such defaulter is a body corporate, the Chairman of the Board of Directors and every Director or principal officer of such body corporate shall be deemed to be a defaulter and such Levy as is not paid on or before the due date shall be deemed to be a Levy in default.

The defaulter shall be liable to pay a surcharge in addition to the Share Transaction Levy in default, calculated-

- (a) at the rate of 10% of the amount of such levy as is in default for the subsequent period of one month or part thereof, from the due date for the payment of the Levy and
- (b) at the rate of 2% of the amount of such Levy as is in default for each subsequent period of one month or part thereof, from the due date for the payment specified in above (a),

The Commissioner-General shall take action to recover the Share Transaction Levy or such part of the Levy which is in default for a period of more than three months and the amount of the surcharge accrued thereon.

Recovery of default Tax

- The Commissioner-General shall issue a notice to the defaulter, three weeks prior to the taking of any steps for the recovery informing the defaulter of the intention of the Commissioner-General to institute proceedings for the recovery.
- Where the Commissioner-General issues above Notice of default but the levy and surcharge accrued thereon remains unpaid even though the period of three weeks specified in such Notice has elapsed, the Commissioner-General shall issue to the Magistrate having jurisdiction over the division in which the defaulter resides or is carrying on business, a Certificate containing the name and address of the defaulter and the total sum in default along with a statement to the effect that the person so named has defaulted in making the payment.
- The Magistrate shall on receipt of the Certificate, issue summons on the defaulter requiring him to appear before him on a date to be specified and show cause as to why proceedings should not be taken against him for the recovery of the amount of the Share Transaction Levy or such part of the Levy which is in default and the surcharge accrued thereon. Where the cause shown appears to the Magistrate to be insufficient so as to explain the reason for the non-payment, the Magistrate shall after recording the same, make order for the recovery of the amount of the Share Transaction Levy in default and the amount of the surcharge accrued thereon, from the defaulter as if it were a fine imposed by the Magistrate. The money so recovered shall be remitted to the Commissioner-General, who shall credit the same to the Consolidated Fund.

Exercise

Mr. A owns 100,000 shares of a quoted public company. He sold 50,000 shares at Rs. 50/- per share on 20.10.2020 through Colombo Stock Exchange.

Calculate Share Transaction Levy payable on this transaction.

$$\begin{aligned}\text{By seller} &= (50,000 \times 50) \times 0.2\% \\ &= \underline{\underline{\text{Rs. 5,000}}} \\ \text{By buyer} &= (50,000 \times 50) \times 0.2\% \\ &= \underline{\underline{\text{Rs. 5,000}}}\end{aligned}$$

7.11 Tourism Development Levy (TDL)

In terms of the Part 1 of the Finance Act No 25 of 2003, Tourism Development Levy shall be charged from every institution licensed under the Tourism Development Act, No. 14 of 1968.

Every institution shall apply to the Ceylon Tourist Board and obtain a registration for TDL.

Rate - 1% on the turnover in any year

If any institution having an annual turnover of not exceeding Rs. 12 million or a quarterly turnover not exceeding Rs. 3 Million - 0.5% on the turnover of such institution.

Definition of Turnover

The turnover in relation to -

- a) a tourist hotel, means the amount received or receivable from the total sales excluding the service charges up to 10% of such sales and the value added tax charged on such sales
- b) a travel agent, means the total receipts from services provided in relation to the tourist industry excluding payments made by him in respect of services provided to him by other local service providers and the value added tax charged on such services.

However TDL shall not be charged on the commission carried on the sale of airline tickets from Travel Agent including General Sales Agents licensed under the Tourism Development Act NO 14 of 1968

- c) a tourist shop, means the amount received or receivable from the total sales of products from any such shop excluding the value added tax charged on such sales

The levy shall be remit to the Director General of Ceylon Tourist Board for every quarter before the end of succeeding quarter and quarterly returns shall be submitted. Accordingly, due dates are as follows.

Quarter ended 31st March 2020	- on or before 30th June 2020
Quarter ended 30th June 2020	- on or before 30th September 2020
Quarter ended 30th September 2020	- on or before 31st December 2020
Quarter ended 31st December 2020	- on or before 31st March 2021

Note : Considering the impact of the Easter Sunday attack and the Covid 19 outbreak a grace period of 10 months has been granted for TDL payments from 1st July 2019 to 30th April 2020, recovering from 20 equal instalments starting from 01st May 2020 ending 31st December 2021, without penalties.

Exercise

Following information of Sahas Hotel were given in relation to Quarter ended 31.12.2020

Room Revenue	4,560,000
Less: Service Charge	(456,000)
Sale of beverages	2,167,000
Income from Other services	1,254,000
	<u>7,525,000</u>
Tourism Development Levy @ 1%	<u>75,250</u>

7.12 Excise Duty chargeable under the Excise (Special Provisions) Act

1. Imposition

As per the provisions of Excise (special provisions) Act, No. 13 of 1989 (the Act), Excise Duty is charged, levied and paid on every excisable article manufactured or produced in Sri Lanka or imported into Sri Lanka at rates specified by the Minister by order published in the gazette.

Every such article in respect of which an Order is made under section 3 of the Act is referred to as "an excisable article".

The rate or rates of excise duty levied in respect of articles will be determined by reference to the class or description of articles.

2. Registration

All applications for registration should be made to the Director of Excise with the prescribed fee. Director of Excise shall issue to every person registered under Excise Duty (Special Provisions) Act, No. 13 of 1989 as amended, a certificate of registration in the prescribed form and assigning a registration number to every such person.

Unless the registration is obtained from the Director of Excise, no person should engage in manufacture, wholesale purchase and sale, storing of goods for the purpose of wholesale trade or import goods, after expiry of two months from the date on which an article becomes a prescribed excisable article consequent to the order made by the minister.

3. Notification of Removal

- (1) Where the manufacturer of any excisable article intends to remove or to cause the removal of any quantity of such excisable articles from the factory or other place at which such excisable articles were produced or manufactured, he shall give at least 48 hours notice of that fact to the Director-General or an excise officer designated by the Director-General for that purpose.
- (2) Where the importer of any excisable articles intends to remove or to cause the removal of, any quantity of such excisable articles from the Customs warehouse or such other place as is authorized by the Director-General of Customs, at which such excisable articles were stored after their import, he shall give at least 48 hours notice of that fact to the Director-General or an excise officer designated by the Director-General for that purpose.

4. Value of Excisable Articles

Excise Duty is levied on excisable article (other than imports) based on its value. The value for such goods would be:

- The normal sale price at which an excisable article is sold at the time such articles are removed from the place of manufacture, and in the course of wholesale trade, where the buyer is not a related person.
- The nearest ascertainable sale price when the normal price is not ascertainable as the goods are not sold or for another reason.

5. Power to estimate the sale price

If a manufacturer, producer or importer sells any excisable article at a price below the open market price, which causes him to reduce the amount of excise duty payable by him, then the Director of Excise has the power to re compute tax as if the article was sold at the open market value.

6. Value for Imports

The value of any imported article, for the purpose of calculating excise duty will be the sum of the following:

- (i) Cost, insurance and freight value of the article.
- (ii) 10% of cost, insurance and freight value of the article as above, for bank and other charges.
- (iii) An amount equal to the total of customs duty, cesses and ports and airport development levy on import of that article.

7. Payment of Excise Duty

Where an excisable article has been produced or manufactured in Sri Lanka, duty should be paid by the producer or manufacturer of that excisable article, after its removal from the factory or in any other place that such excisable article was produced, within one calendar month from the last date of each quarter in the year in which the removal of goods takes place.

Where an excisable article has been imported into Sri Lanka, duty should be paid by the importer of such excisable article after its removal from the Customs warehouse or any other place such excisable article was stored, immediately after its importation into Sri Lanka, within one calendar month from the last date of each quarter in the year in which such import takes place.

08. Proceeding for Recovery before Magistrate

Where the payment of any excise duty is in default, the Director General may take recovery action through magistrate courts.

Summary



Exercises

1. In charging of VAT, explain the time of supply in relation to supply of services.
2. In VAT computation how does the “output tax” and “input tax” operate?
3. What are the due dates for settling the VAT liability & filing returns for the quarter ended 31.12.2020
4. Describe RIP & RIS in relation to simplified VAT
5. Is the input VAT available in computation of Financial VAT?
6. What is the due date for paying stamp duty compounded?

Solutions

1. The time of supply in relation to supply of services is as follows;
Earliest occurrence of the following;
(a) The services are performed; or
(b) A payment for the services or future services is received; or
(c) A payment for the services or future services is due; or
(d) An invoice in respect of the services is issued.
2. Once the output tax is computed by applying the tax rate on the value of supplies, input VAT paid on the purchase of goods and on services consumed can be deducted.

Computation of VAT Liability

Output Tax (Value of supply x Rate)	xx	
Less: Allowable Input tax	(x)	
VAT payable		<u>x</u>

3. Date of filing return - on or before 31.01.2021
Tax payment dates -
 - 20.11.2020
 - 20.12.2020
 - 20.01.2021
4. RIP & RIS in relation to simplified VAT
Following persons registered under S-VAT scheme are called as Registered Identified Purchasers (RIP)
 - (i) Exporters of articles as well as services (Zero rated suppliers).
 - (ii) Registered persons engaged in any strategic development project referred to in paragraph (f) (i) of Part (II) of First Schedule to the Act.
 - (iii) Registered person engaged in any specific project referred to in paragraph (f) (ii) of part (ii) of First Schedule to the Act
 - (iv) Suppliers who provide value added services to an exporter which results in the improvement of the quality, character or value of any goods manufactured for export.
 - (v) Persons registered under Section 22 (7) of the Act (refer para 1.4.5.2 of this Chapter) as project related items during the project implementation period.
 - (vi) Any registered person who supplies any goods or services to any registered person referred to in item (i), (ii), (iii), (iv), (v) or (vi) above if CGIR is satisfied that value of such supplies exceeds 50% of the total supplies of such supplier.

Suppliers of any goods or services to such registered persons who are registered under S-VAT scheme are called RIS. These persons are referred to as registered identified suppliers (RIS).

Under S-VAT system the RIP's are eligible to purchase goods or services for carrying on or carrying out any respective taxable activity without paying VAT while the RIS, are eligible to supply such goods and services to RIPs without charging VAT.

5. No input VAT is available in computation of Financial VAT.
6. Stamp Duty should be paid within 15 days from the end of each quarter.

Exercises & Solutions

3. The year 2019 and 2020 should be placed with 2020 and 2021 respectively

Exercise 6 and 7 are not applicable now.

CORPORATE AND PERSONAL TAXATION

SUBJECT NO: 304

UPDATES FOR THE
YEAR OF ASSESSMENT 2020/2021

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