

KEY HIGHLIGHTS OF THE INLAND REVENUE ACT NO.24 OF 2017



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CIRCULAR TO CLIENTS

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The Inland Revenue Act No 24 of 2017 was certified by the Honorable Speaker on 24th October 2017 and published as a supplement to part II of the Gazette of the Democratic Socialist Republic of Sri Lanka on 27th October 2017.

According to the Inland Revenue Act No.24 of 2017, the significant changes to the income tax are as follows.

1. Effective date

This Act comes in to operation from 01.04.2018. i.e. with effect from year of assessment 2018/2019.

2. Sources of Income

- Employment Income
- Business Income
- Investment Income
- Other Income

3. Withholding Taxes

3.1 Employment Income

Employers are required to deduct WHT on employment income at rates specified by the Commissioner General of Inland Revenue.

An employee is entitled for a relief of Rs. 700,000/- against the employment income in addition to the tax-free allowance of Rs. 500,000/- for each year of assessment. Accordingly, employment income of a person will not be subject to WHT up to Rs. 100,000/- per month.

3.2 Investment Returns

WHT Rates

WHT on Dividends

Description	Rate
Dividends	14%
Foreign Dividend Received (Corporate Shareholders who have minimum of 10% holding)	Exempt
Foreign Dividend Received (Individual Shareholders)	As per Progressive Slabs
Dividend Distributed out of Foreign Dividend Received	14%

WHT on Interest on Bank Deposits

Description	Rate
Senior Citizens	Exempt up to Rs. 1.5 Mn
Resident Individuals	5%
Charitable Institutions	5%
Body of Persons	5%
Companies	5%

WHT on Interest on Securities

Description	Rate
Listed Debt Securities	5%
Unlisted Debt Securities	5%
Govt. Securities	Nil

WHT on Rent

Description	Rate
Residents	10%
Non-Residents	14%

WHT on Royalty

Description	Rate
Residents	14%
Non-Residents	14%

WHT on Winnings from a Lottery, Reward, Betting or Gambling – at 14%

3.3 Service Fees & Contract Payments.

Any person making the following payments shall withhold tax in the following manner.

Such persons need to get registration as a WHT Agent by 1st April 2018

- (a) 5% on amounts exceeding Rs. 50,000/- per month on payment of service fee with a source in Sri Lanka to a resident individual, who is not an employee of the payer;
- (i) for teaching, lecturing, examining, invigilating or supervising an examination;
- (ii) as commission or brokerage to a resident insurance, sales or canvassing agent;
- (iii) as an endorsement fee;
- (iv) in relation to the supply of any article on a contract basis through tender or quotation;
- (v) for such other matters as may be prescribed by regulation; or

- (b) 14% on payment of service fee or insurance premium with a source in Sri Lanka to a non-resident person.

3.4 Exemptions

Withholding from service fees and contract payments shall not apply to the following.

- (a) payments subject to withholding under employment income;
- (b) payments made by individuals, unless made in conducting a business;
- (c) payments that are exempt amounts; or
- (d) payments of specified fees in respect of which a certificate is presented by the recipient person confirming that the payments are chargeable with the Economic Service Charge under the Economic Service Charge Act, No. 13 of 2006.

3.5 Payment Date

Within 15 days after the end of each calendar month.

3.6 Filing of Annual Return

Within 30 days after end of each year ending on the 31st March.

Where a withholding agent fails to withhold tax from a payment as required;

- The withholder shall be jointly and severally liable with the withholding agent for the payment of the tax to the Commissioner-General; and
- The tax shall be payable by the withholder within fifteen days after the end of the calendar month in which the payment is received.

3.7 WHT Certificates

A withholding tax agent shall prepare and serve on a withholder a withholding certificate in the form specified as follow.

1. by covering a calendar month- within 30 days after the end of the month

2. in the case of withholding by employers covering the part of the year during which the employee is employed- not later than the 30th day of April of that year or not more than 30 days from the date on which the employment has ceased.

- 3.8 Where a person has not withheld tax, such expenditure shall not be allowed for income tax until tax withheld has been paid to the Commissioner General of Inland Revenue.

4. Income Tax Rates

4.1 Resident and Non-Resident Individuals

Taxable Income	Tax Rates
0- 600,000	4%
600,000 – 1,200,000	8%
1,200,000 – 1,800,000	12%
1,800,000 – 2,400,000	16%
2,400,000 – 3,000,000	20%
Above 3,000,000	24%

Where an individual's taxable income includes gains from the realization of investment assets, those gains shall be taxed at the rate of 10%.

4.2 Companies

- Subject to following, the taxable income of a Company for a year of assessment shall be taxed at the rate of 28%.
 - (a) Small and Medium Enterprises (persons other than professionals with the annual gross turnover less than Rs. 500 Mn – at 14%;
 - (b) Companies predominantly conducting business of exporting goods and services – at 14%;
 - (c) Companies predominantly conducting agricultural business – at 14%;
 - (d) Companies with income from business consisting of betting and gaming, liquor and tobacco (excluding such income which is merely incidental to another business) – at 40%;
 - (e) Companies predominantly providing educational services – at 14%;
 - (f) Companies predominantly engaged in an undertaking for the promotion of tourism - at 14%; and
 - (g) Companies predominantly providing information technology services - at 14%.

“predominantly” means 80% or more calculated based on gross income”

- Where a company's taxable income includes gains from the realization of investment assets, then those gains, shall be taxed to the company at the rate of 10%.

4.3 Partnerships

- A partnership shall not be liable to pay income tax with respect to its taxable income and shall not be entitled to any tax credit with respect to that income but a withholding tax of 8% to be deducted from the relevant share of any partner.
- Where a partnership's taxable income includes gains from the realization of investment assets, those gains shall be taxed to the partnership at the rate of 10%.

4.4 Charitable Institutions

- The taxable income of a charitable institution shall be taxed at the rate of 14%.
- Where a charitable institution's taxable income includes gains from the realization of investment assets, those gains shall be taxed at the rate of 10%.

4.5 Trusts

- The taxable income of a trust shall be taxed at the rate of 24%.
- Gains from the realisation of investment assets shall be taxed at the rate of 10%.

5. Quarterly Income Tax payments

Every person who is an instalment payer for a year of assessment shall file with the Commissioner-General by the date for payment of the first tax instalment an **estimate of tax payable** for the year.

- The amount of each instalment of tax payable by an instalment payer for a year of assessment shall be calculated according to the following formula.

$$\frac{A - C}{B}$$

B

'A' is the current estimated tax payable for the year of assessment;

'B' is the number of instalments remaining for the year of assessment including the current instalment;

'C' is the sum of any tax paid during the year of assessment

- Due dates for Quarterly Income Tax payments
 - If Person's year of assessment ends by 31st March

Quarter	Due Date
1 st Quarter	15 th of August
2 nd Quarter	15 th of November
3 rd Quarter	15 th of February
4 th Quarter	15 th of May of following Year

- In other cases, payable by 15th day after 3 months period of the year of assessment.

6. Filing of Income Tax Return

To be filed within 8 months from the end of the year of assessment.

Eg: For the year ending 31st March - on or before 30th November of the following year of assessment.
: For the year ending 31st December - on or before 31st August of the following year of assessment.

7. Gains/Loss from Realization of Investment Assets (Capital Gain Tax)

Gain/(Loss) = Consideration Received – Cost (Market Value as at 30th September 2017)

7.1 Tax Rate

Gains from the realization of investment assets shall be taxed at the rate of 10%.

7.2 Payment dates

To be specified by the Commissioner General.

7.3 Return Filing

Not later than one month after that realization.

7.4 Exemptions

- Where the Commissioner-General is satisfied that an investment asset has been realized in two or more parts for the purpose of taking advantage of this paragraph, any gain arising from the realisations shall be exempt under this paragraph only if the total gain from the realisation of all parts does not exceed Rs. 50,000/- and the total gains made by the resident individual from the realisation of investment assets in the year of assessment do not exceed Rs. 600,000/-
- In the case of the realisation of an investment asset that is jointly owned, this paragraph applies only if the total gain made by all owners of the investment asset on realisation of the asset does not exceed Rs. 50,000/- and the total gains made by the resident individual in the year of assessment do not exceed Rs. 600,000/-
- A gain made by a resident individual on the realisation of the individual's principal place of residence, provided it has been owned by the individual continuously for the three years before being realised and lived in by the individual for at least two of those three years (calculated on a daily basis)
- Gain made on realisation of an asset consisting of shares quoted in any official list published by any stock exchange licensed by the Securities and Exchange Commission of Sri Lanka.

8. Taxation on Gifts

Gifts received by a person with respect to following will be subject to taxation.

- in respect of the business;
- in respect of the employment;
- in respect of the investment

9. Deemed Dividend Tax

Requirement of minimum dividend declaration of 10% has been removed with effect from 1st April 2018.

For Further Clarifications Contact

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