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Ref. 02/2020

Circular to Clients

Changes to Income Tax (IT)

New tax proposals made to Income Tax (IT) and approved by the cabinet of Ministers, will be implemented subject to formal amendments to Inland Revenue Act No.24 of 2017.

01.Income Tax (IT)

(a) Income from Agriculture, Fisheries and Livestock shall be exempted from income tax, with effect from the year of Assessment 2019/2020.

(b) Income Tax Rate applicable on construction industry shall be reduced from 28% to 14%, with effect from the year of Assessment 2019/2020.

(c) Religious institutions shall fully be exempted from income tax, with effect from December 01, 2019.

(d) Income of an individual up to Rs. 3,000,000 per annum from any source of income shall be exempted from income tax and the excess income shall be liable for income tax at the progressive rates of 06%, 12% on each tax slab of Rs. 250,000 and 18% on the excess, with effect from January 01, 2020.

(e) Income earned from the supply of services for the receipt of foreign currency shall be exempted from income tax, with effect from December 01, 2019.

(f) Income from the Information Technology and enabling services shall be exempted from all taxes.

02.With Holding Tax (WHT)

02.01 With Holding Tax (WHT) on Service Fees

Withholding Tax on Service Fees will be abolished with effect from 01st January 2020.

Any Resident Individual {whose payment made by any WHT Agent exceeding Rs. 50,000/- per month and deducted at 5% under section 85(1)(a) and item 10(1)(c)(i) to the FIRST SCHEDULE, of the Inland Revenue Act, No. 24 of 2017}, is removed with effect from January 01, 2020.



Accordingly, WHT Agents are instructed not to deduct any WHT on payments to be made on or after January 01, 2020, to any Resident Individual in respect of following services to be performed by such individual.

- Teaching, lecturing, examining, invigilating, supervising an examination,
- Commission or brokerage to a resident insurance, sales or canvassing agent,
- An endorsement fee,
- Supply of any article on a contract basis through tender or quotation,
- Service provided in the capacity of independent service providers such as doctors, engineers, accountants, lawyers, software developers, researchers, academics, or any other similar service,
- Service of construction work, security service, janitorial service, consultation work of any kind, organizing of events, catering, designers, dress makers, tour guidance, entertainment, agency functions or any similar services or connected work where such services are provided under an agreement or otherwise - Any management service
- Vocational services provided as an independent service provider

Deduction of WHT in all other circumstances shall remain without any change. (For Example: Rent, Royalty and etc.)

02.02 With Holding Tax (WHT) on Interest & Discounts

02.02.01 The tax deduction required under the provision of section 84 of the Act, is not applicable to the following type of interest or discounts.

(a) Interest paid to a financial institution on the ordinary loans & advances provided by such institution;

(b) Interest or discount paid to any person on a security or a treasury bond under the registered stocks and securities ordinance (Chapter 420) or a treasury bill under the local treasury bills ordinance (chapter 417);

(c) An amount equal to the interest or discount paid or allowed (as the case may be) to any non-resident person or to any licensed commercial bank in Sri Lanka, by the issuer of any sovereign bond denominated in foreign currency, issued on or after October 21, 2008, by or on behalf of the Government of Sri Lanka;

(d) Aggregate of interest income from all deposits of a senior citizen (resident in Sri Lanka who is sixty years or above at any time during the year of assessment) up to the tax relief available under paragraph 2 (d) of the FIFTH SCHEDULE to the Inland Revenue Act, until December 31, 2019 (subject to the declaration

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made under 2018 circular by such senior citizen whose aggregate interest income is not more than Rs.1,500,000/- per annum).

(e) The interest derived by a charitable institution, where it is proved to the satisfaction of the Commissioner-General that such interest is applied solely for the purpose of providing care to children, the elderly or the disabled in a home maintained by such charitable institution (subject to the letter issued by the Department of Inland Revenue, confirming such institution is qualified for this exemption);

(f) Aggregate interest income or discount from all the accounts including Islamic financial transaction maintained in a bank or a financial institution, to an account holder (including senior citizen) up to Rs.250,000/- per month, for the period from January 01, 2020 to March 31,2020.

02.02.02 The following interest and discounts are not liable for the deduction of Withholding Tax (WHT)

(a) The government of Sri Lanka or a local authority including any government department;

(b) The Central Bank of Sri Lanka including Monetary Board;

(c) Any university established under any university act in Sri Lanka;

(d) Government assisted any private school registered with the Ministry of Education and mandated to follow the government circulars;

(e) Co-operative Societies registered under Co-operative Societies Law, No.05 of 1972;

(f) A foreign Government which falls under a diplomatic immunities law;

(g) Any international organization which falls under a immunities law or similar law or exemption provided under an agreement entered into with Government of Sri Lanka;

(h) An individual entitled to privileges to the extent for by;
- A diplomatic immunities law or a similar law;
- An act giving effect to the convention on the privileges and immunities of the United Nations or specialized agents of the united nations;

02.02.03 Rate of Deduction

Every bank or financial institution paying interest including any sum referred to as "excess"over the original payment (in the case of any certificate of deposit), discount or profit from Islamic financial transactions is required to withhold income tax from such payments (unless it is exempt) as follows;

(a) For a period from April 01,2019 to December 31,2019 in the case of interest or discount or income from Islamic financial transactions paid to any person (other than to a senior citizen), is required to withhold at the rate of 5%.

(b) In the case of a senior citizen, tax relief available under Paragraph 2(d) of the FIFTH SCHEDULE to the Inland Revenue Act will be continued until December 31, 2019. If the interest income exceeds such relief, on the excess over the relief amount, be withheld at the rate of 5%.

(c) For the period from January 01, 2020 to March 31, 2020 , in the case of interest or discount including income from Islamic Financial transaction paid to any person (including a senior citizen) , if the aggregate interest income from all the accounts maintained in a bank or a financial institution by an account holder exceeds Rs.250,000 per month, withholding tax shall be deducted at the rate of 5% on the amount in excess over Rs.250,000/-.

Further, as per the instructions, the interest or discount including income from Islamic financial transactions, paid to any person shall not be subject to withholding tax with effect from April 01, 2020.

03.Pay As You Earn (PAYE) Tax

The guideline issued under the Inland Revenue Act, No. 24 of 2017 for the year of assessment 2018/2019, which is effective from April 01, 2018 is valid till December 31, 2019.

- In arriving at taxable income from employment income for the period from January 01, 2020 to March 31, 2020 (hereinafter referred to as "the period"), personal relief of Rs. 750,000/- is available for a resident individual and a non-resident individual who is a citizen in Sri Lanka.

- Accordingly, any resident individual and non – resident individual who is a citizen in Sri Lanka, who receives in excess of Rs. 750,000/- or likely to receive in excess of Rs. 750,000/- for the period is liable to pay PAYE Tax from the employment income.

Following tax table is applicable for the secondary employment.

Where Monthly payment of the employee;

- less than or equal to LKR 50,000 per month, at 5%; and
- Balance amount exceeds LKR 50,000 per month, at 10%

Please refer IRD web portal for the PAYE tax tables applicable from January 01,2020 to March 31,2020.

Please feel free to contact us, if you need any further clarifications in this regard.

Jayasinghe & Co.,
Chartered Accountants,
02nd January 2020

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