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Ref. No. 06

CIRCULAR TO CLIENTS
STATEMENT OF ESTIMATED TAX PAYABLE AND QUARTERLY INSTALMENTS
YEAR OF ASSESSMENT 2020/2021

In terms of Sections 90 and 91 of the Inland Revenue Act, No. 24 of 2017 (IR Act) , a person who is an instalment payer shall pay income tax based on the estimated taxable income by quarterly instalments on the 15th of August, 15th of November and 15th of February in that year of assessment and the 15th of May of the next succeeding year of assessment and is required to submit a **Statement of Estimated Tax Payable (SET)** by the date for payment of the first tax instalment.

Accordingly, any instalment payer shall file the SET and pay the 1st instalment for the year of assessment 2020/2021 on or before the 15th of August 2020.

1.0 GENERAL INSTRUCTIONS

The SET consists of two parts, Part I and Part II. All **instalment payers** should complete part I and part II of the SET.

However, any individual who has ONLY employment income and already given the consent to deduct Advance Personal Income Tax (APIT) on such employment income should only complete PART II of the SET (Declaration) and submit to Inland Revenue Department (IRD).

- ✓ Issuance

SET shall be issued by the Commissioner General of Inland Revenue to persons who are chargeable with income tax. Those who have not received the SET (Individuals whose estimate income exceeds more than Rs. 3,000,000 for the Year of Assessment 2020/2021 could obtain a SET from the Taxpayer Services Unit at the IRD Head Office or from any Regional Office.

- ✓ Submission

Duly completed SET Form can be furnished to the Central Document Management Unit (CDMU) at the IRD Head Office or to any Regional Office, also SET Form can be sent through registered post to the Commissioner, Central Document Management Unit, Inland Revenue Department, Chittampalam A Gardiner Mawatha, Colombo 02.

- ✓ Selection of the type of SET

The first SET furnished by a person for a year of assessment is treated as "Original Estimate". Original estimate shall remain in force for the whole year of assessment unless revised estimate is submitted by taxpayer.

If there is any change in estimated tax payable, a revised SET can be submitted and instalment payments should be made accordingly. Further in the event of submitting a revised estimate, it is important to mark "√" in the cage of, "Revised Statement' 'of the SET.

✓ Penalty for late filing and submitting of false or misleading SET Form

A person who fails to submit the SET on or before the due date, shall be liable to pay a penalty under Section 185 of the IR Act.

Accordingly, a person who fails to comply with a request for information properly made under this Act, within the specified time, shall be liable for a penalty of an amount not exceeding one million.

The SET form considered as a statement to a tax officials and penalty will imposed under section 181 of the IR Act on false or misleading statement.

✓ Payment of Estimated Tax

Payment Due Dates

The estimated tax shall be paid in four equal amounts by the following dates.

Tax Installment	Due date of Payment	Payment Period Code
First Installment	15th August 2020	20211
Second Installment	15th November 2020	20212
Third Installment	15th February 2021	20213
Fourth Installment	15th May 2021	20214

When making a quarterly instalment payment, it is advised to use the 'paying in slips' issued and posted to the taxpayers by the IRD. In the event of not receiving it, "paying in slip" can be collected from the Taxpayer Service Unit at the IRD Head Office, all Regional Offices and from the branches of the Bank of Ceylon.

✓ Legal Actions for evading instalment payments

Following legal actions can be contemplated against any person who has willfully evaded instalment payments.

Penalty for nonpayment /late payment - (Under Section 179 (2) of the IR Act)

- A person who fails to pay all or part of an instalment required under this Act, within 14 days of the due date for the instalment shall be liable to a penalty equal to 10% of the amount of tax due but not paid.

Interest on default - (Under Section 159 (1) of the IR Act)

- In the event of a default of an instalment or part thereof, 1.5% interest per month or part of a month could be charged on such default instalment or part of the instalment.

2.0 INSTRUCTIONS TO COMPLETE THE SET

Mark " √ " at the relevant cage to indicate whether the Statement is the Original Statement, or Revised Statement. Also indicate the Income tax type & other includes partnerships.

(Please mark "✓" at the relevant cage)

STATEMENT TYPE:	Original Statement	☐	Revised Statement	☐
INCOME TAX TYPE:	Corporate Income Tax	☐	Individual Income Tax	☐
	Other	☐		

- The amounts of expected / estimated income from each source of income should be declared in cages (10), (20), (30) and (40) of the SET Form.

- Cage 50- Estimated Assessable Income.

  a) Total estimated income/gain from employment, business, investment or other income source would be the total estimated assessable income of a person.

  Enter total of all income enumerated under cages 10 to 40 in the cage 50.

  b) When calculating estimated assessable income, final withholding payments, exempt amounts and excluded amounts should not be included.

- Cage 60 - Deductible on Qualifying Payments and Reliefs

Enter only deductible amount of all estimated qualifying payments and reliefs to be made during the year. (subject to following restrictions).

a) Qualifying Payments
   - Profits remitted to President's Fund
   - Donations to Government or other specified institutions
   - Donations to Approved Charity
     - Individual : 1/3rd of taxable income or Rs.75,000/- whichever is lower.
     - Entity : 1/5th of taxable income or Rs.500,000/- whichever is lower.

b) Reliefs

- Personal Relief

Resident individuals and **non-resident but citizen individuals** are entitled to a personal relief of Rs. 3,000,000 for each year of assessment. However, this does not apply to an individual in his capacity as a trustee, receiver, executor or liquidator.

The relief may be deducted from the Assessable income of an individual except to the extent that the Assessable income comprises gains from the realisation of investment assets.

- Rent Relief

Resident individuals are entitled to deduct 25% of the total rental income from an investment asset for the year of assessment unless it is intended to be claimed for any actual expenditures incurred by the taxpayer for the repair, maintenance, and depreciation of the investment asset.

- Expenditure Relief

Under this proposed relief **resident individual** is entitled to deduct following expenditure up to a total sum of Rs. 1,200,000, incurred during a year of assessment.

- health expenditure including contributions to medical insurance;
- educational expenditure incurred locally, by such individual or on behalf of his children;
- interest paid on housing loans;
- contributions made to an approved pension scheme;
- expenditure incurred for purchase of equity or security

• Cage 70 – Estimated Taxable Income

Estimated Taxable Income would be the difference between Estimated Assessable Income, and the Estimated Qualifying Payments and Reliefs if any. Deduct total of deductions in cage 60 from Estimated Assessable income in cage 50 to get at the Estimated Taxable Income.

• Cage 80 – Estimated Tax Liability

Estimated tax liability should be computed for the following persons by applying the different income tax rates.

a) Individuals

- Standard rates Taxable Income Range

Taxable Income Range (Rs)	Tax on Taxable Income equal to the lowest of the range	Tax rate on the excess taxable income over the range
First 3,000,000	180,000	6 %
Next 3,000,000	360,000	12 %
Balance		18 %

- Special Rates

on gains and profits from manufacture and sale or import and sale of any liquor or tobacco products - 40%

on gains and profits from conducting betting and gaming - 40%

b) Companies

(i.)on taxable income of a company - 24%
(ii.)on gains and profits from following specific businesses - 14%

- Small and Medium enterprises
- Exporting goods
- Educational services
- Promotion of tourism
- Construction services
- Agro processing
- Health care services
- Dividends received from a resident company

(iii.)on gains and profits from Manufacturing - 18%
(iv.)on gains and profits from conducting betting and gaming - 40%
(v.) on gains and profits from manufacture and sale or import and sale of any liquor or tobacco products - 40%

c) Charitable Institutions - 14%

d) Unit Trust – 28%

- Cage 90 - Estimated Foreign Tax Credit

Enter any Foreign Tax Credit if any in Cage 90. Foreign tax credit is limited to the amount of tax on such part of profits or income to which foreign tax credit relates.

- Cage 100 – Estimated Tax Payable

Estimated tax payable would be the difference between estimated tax and estimated foreign tax credit. Deduct foreign tax credit declared in cage 90 from Estimated Tax Liability in cage 80 to arrive at the Estimated Taxable Payable.

Take Estimated Tax Payable to calculate the quarterly instalments.

✓ Declaration

It is mandatory to complete Part (A) and Part (B) of the Declaration where the SET or part of the SET is prepared by some other person (including an approved accountant), other than a full-time employee of the taxpayer.

PART (A) - Should include details of other person who has prepared the SET Form (including approved accountant)

PART (B) -Taxpayer or the taxpayer's duly authorized agent, should sign the SET form using part (B) of the Declaration.

3. CALCULATION OF INCOME TAX QUARTERLY INSTALMENT PAYMENTS

- The quarterly instalment payment is calculated by using the following formula.

Quarterly Instalment Payment (E) = (A – C) / B

A - Estimated Tax Payable (Amount declared in Cage 100)
B - Number of instalments payable including the current instalment
C - Tax payments made prior to that instalment (Previous instalment payments, any withholding tax payments.(WHT, AIT) paid /withheld prior to the due date of payment of the current instalment payment)

- Calculation of final quarterly instalment payment

The Final Quarterly Instalment Payment would be the difference between Quarterly Instalment Payment and Additional payments.

Final Quarterly Instalment Payment = E - F

Following payments are considered as additional payments (F).

- Any deductible Economic Service Charge (ESC) paid under ESC Act, No. 13 of 2006
- Any advance instalment payment for relevant quarter
- Notional Tax Credit (NTC)
- Partnership Tax Credit (PIT)

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

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Jayasinghe & Company,
Chartered Accountants.
21st July 2020.