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CIRCULAR TO CLIENTS

INLAND REVENUE (AMENDMENT) ACT, NO. 45 OF 2022

Effective Date – From 19th December 2022.

Inland Revenue (Amendment) Act No.45 of 2022, was certified by the Hon.Speaker on 19th December 2022.

According to the Amendment Act the significant changes to income tax are as follows,

01. Personal Income Tax

01.01 Tax free Allowance applicable on resident and non-resident citizen

- First 09 months of Y/A 2022/2023 (01/04/2022 -31/12/2022) - Rs.2,250,000
- Second 03 months of Y/A 2022/2023 (01/01/2023 -31/03/2023) - Rs.300,000
- From Y/A 2023/2024 (With effect from 01/04/2023) - Rs.1,200,000

01.02 Income Tax rates applicable on the taxable income of a resident or non-resident individual for the Year of Assessment 2022/2023

I. Taxable income for the **first 9 months** period of the Y/A 2022/2023 (1/4/2022 - 31/12/2022).

Taxable Income	Rate
First Rs.2,250,000	6%
Next Rs.2,250,000	12%
Balance	18%

II. Taxable income for the **second 3 months** period of the Y/A 2022/2023 (01/01/2023 -31/03/2023)

Taxable Income	**Rate**
First Rs. 125,000	6%
Next Rs.125,000	12%
Next Rs.125,000	18%
Next Rs.125,000	24%
Next Rs.125,000	30%
Balance	36%

III. Tax rate applicable on the taxable income of a resident or non-resident individual for any Y/A commencing from 1 April 2023. (Y/A 2023/2024 onward)

Taxable Income	**Rate**
First Rs. 500,000	6%
Next Rs.500,000	12%
Next Rs.500,000	18%
Next Rs.500,000	24%
Next Rs.500,000	30%
Balance	36%

01.03 Expenditure relief

Resident individual expenditure relief would be restricted to Rs. 900,000 for the first nine months of the year of assessment 2022/2023 and expenditure relief will not apply commencing from 1st January 2023.

01.04 The maximum rate of 14% applicable on individual income from following has been removed w.e.f. 1 October 2022

I. Consideration received in respect of gems and jewellery

II. Amounts received on the supply of electricity to national grid generated by using renewable energy resources by any individual

02. Advance Personal Income Tax (APIT)

- APIT on employment income as specified by the CGIR will be applicable in relation to all the employees irrespective of the consent given by the employee with effect from 1st January 2023.

- Filing of Personal Income Tax Return is not required by an individual whose tax payable for the year of assessment relates exclusively to income from employment where the employer has deducted Advance Personal Income Tax.

- Any retirement payments received at the time of the retirement from employment where the respective retirement contribution have already been considered for income tax purposes and the employee has paid tax on such contributions in a previous year of assessment.

03. Corporate Income Tax

03.01 Standard Income Tax Rate

- Y/A 2022/2023 – Frist six months (i.e 01/04/2022 - 30/09/2022) – 24%
- Y/A 2022/2023 – Second six months (i.e 01/10/2022 -31/03/2023) - 30%
- Y/A 2023/2024 onwards (With effect from 01st April 2023) - 30%

03.02 Removal of concessionary tax rates

The concessionary tax rates of 14% and 18% applicable on identified gains and profits will not be applicable w.e.f. 01st October 2022. (Exports, tourism, healthcare, education, construction, renewable energy, manufacturing etc. as well as SMEs)

03.03 The income tax rate of 40%

The higher rate of 40% will continue to apply as follows,

I. Gains and profits from conducting betting and gaming

II. Gains and profits from the manufacture and sale or import and sale of any liquor or tobacco product

03.04 Tax rate for Trusts

- Y/A 2022/2023 – Frist six months (i.e 01/04/2022 - 30/09/2022) – 18%
- Y/A 2022/2023 – Second six months (i.e 01/10/2022 -31/03/2023) - 30%
- Y/A 2023/2024 onwards (With effect from 01st April 2023) - 30%

03.05 Tax rate for Unit Trusts or Mutual Funds, non-governmental organization

- Y/A 2022/2023 – Frist six months (i.e 01/04/2022 - 30/09/2022) – 24%
- Y/A 2022/2023 – Second six months (i.e 1/10/2022 -31/03/2023) - 30%
- Y/A 2023/2024 onwards (With effect from 1 April 2023) - 30%

03.06 Capital Gain Tax for Corporates

Capital gain tax rate applicable on realization of investment asset by the companies will be increased to 30%, w.e.f. 1 October 2022.

04. Deductibility of expenses in determining the Assessable Income

04.01 Disallowable expenses

Taxes that are not allowed in calculating the Assessable Income is extended to cover any tax or levy which is not allowed in terms of any other written law.

04.02 Deduction for improvements

Where an improvement is carried out for a depreciable asset, where capital allowance has been fully claimed, the improvement value could be claimed as follows.

- Building, structures and similar work of permanent nature (class 4 assets) – 12 Years
- Other Depreciable Assets (other classes) – 3 Years

04.03 Capital Allowances

The claiming of capital allowance has been limited to the cost of the depreciable asset.

04.04 Loss Claim

Loss from business: Claim on account of a loss in relation to the business where the tax rate has been substantially increased, the losses incurred at lower rates will not be considered as being taxable at a reduced rate. This would allow companies with unrelieved losses prior to proposed changes to claim such losses against profits under the amended tax rate.

Loss from investments: Claimability of unrelieved losses from an 'investment' is limited for the succeeding 6 Y/A from the Y/A it is incurred

Loss claimability against Capital Gains: Gain from the realization of investment asset cannot be reduced by any loss.

05 Advance Income Tax (AIT)

Mandatory AIT deductions will be applicable on the payment of interest, charges, annuities, royalty, technical service fee, or similar payment paid by the Government of Sri Lanka including such payments made by any institution on behalf of the Government of Sri Lanka will be considered to have a source in Sri Lanka.

- Rent equal or exceeding Rs.100,000 per month made to a resident person – 10% (on total rent)
- Interest or discount – 5%
- Dividend paid – 15%
- All other payments – 14%

06 Withholding tax on service payments

The following withholding tax rates applicable on service fee payments with effect from 1st January 2023

Payment of service fee or an insurance premium with a source in Sri Lanka to a non-resident – withholding at the rate of 14%

Following payments exceeding Rs.100,000 per month to a resident individual (who is not an employee of the payer) – withholding at the rate of 5%

- Service fee for teaching, lecturing, examining, invigilating or supervising an examination;

- Service fee as a commission or brokerage to a resident insurance, sales or canvassing agent;

- For services provided by individual in the capacity of independent service provider such as doctor, engineer, accountant, lawyer, software developer, researcher, academic or any individual service provider as may be prescribed by regulation.

07. Final withholding payment

Dividend paid by a resident company is considered as a final withholding payment with effect from 1st January 2023. However, though interest income is subject to 5% WHT it is not falling under final withholding payment.

08. Exemptions

08.01 Introduction of Exemptions

I. A dividend paid by a resident company on or after 01st October 2022 which is engaged in one or more of certain businesses.

II. Dividend payment attributable to, or derived from, another dividend received by that resident company or another resident company which is subject to AIT w.e.f. 01st October 2022.

III. Gain from realization of capital asset used in business or investment or a liability by an entity fully owned by the Government of Sri Lanka (GOSL), where such gain was made due to any decision by the GOSL which is being essential for the economic development of Sri Lanka and subject to the prior written approval of the Minister w.e.f. 01st April 2022

08.02 Withdrawal of Exemptions

Removed with effect from **01st October 2022**

- Dividend paid by a resident company to a member who is a non-resident person

- Gain from realization of land or building which was sold, exchanged or transferred to a real estate investment trust (REIT)

- Dividend and gains on the realization of units or amounts derived as gains from the realization of capital assets of a business or investment by a unit holder, from REITs

Removed with effect from **01st April 2023**

- Gains and profits derived from providing information technology and enabled services
- Any vocational education programmed of any Vocational Education Institution
- Any business of export of gold, gems or jewellery or from the business of cutting and polishing of gems which are brought to Sri Lanka and exported after such cutting and polishing, where such gains and profits earned in foreign currency are remitted through a bank to Sri Lanka
- Gains and profits from business of the following new undertakings;
    - An undertaking which is involved in the sale of construction materials recycled
    - Business commenced by an individual after successful completion of vocational education from any Vocational Education Institution
    - An undertaking commenced by a resident person for the purpose of manufacturing of boats or ships in Sri Lanka
    - Any renewable energy project established with a capacity to produce not less than 100 Mega Watts of solar or wind power
    - An undertaking by any resident person who constructs and installs communication towers and related appliances
    - An undertaking for letting bonded warehouses or warehouses related to the offshore business in the Colombo and Hambanthota Ports

09. Application for making an amendment to a self-assessment

Application shall be filed with the Commissioner- General within the period specified in subparagraph (i) of paragraph (b) of subsection (2) of section 135, for any year of assessment ending prior to April 1, 2022 and within a period of twelve months from the date on which the self-assessment return was filed, for any year of assessment commencing on or after April 1, 2022.

10. Segregation of tax accounts

Where a person has expenses incurred in common or commonly used any assets on all business or investment activities, and such expense or deduction cannot be separately identified for the calculation of tax accounts, it is permitted to divide such expenses or deductions on a proportionate basis (according to the proportion of turnover or proportion of asset usage) .

The income tax payable by a person for the Y/A 2022/23, shall be calculated separately for 2 periods of the Y/A as first nine months and second three months by an individual and first six months and second six months by persons other than individuals. For the purpose of such calculation, the person may use pro-rata basis (as 75% for first nine months and balance 25% for second three months by individuals and 50% for first six months and balance 50% for second six months by persons other than individuals) to arrive the taxable income for such two periods.

If you require any further clarifications on the matters discussed therein, please do not hesitate to Contact,

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