



INLAND REVENUE DEPARTMENT
Notice to the Taxpayers and Withholding Agents (WHA)

**Implementation of Proposed Changes to the
Inland Revenue Act, No. 24 of 2017**

As instructed by the Ministry of Finance on January 31, 2020 and March 05, 2020, following changes have been proposed to the Inland Revenue Act, No. 24 of 2017 (IRA), pending formal amendments being made to the Act and to be implemented with effect from **January 01, 2020**, unless otherwise stated.

1. Removal of Withholding Tax (WHT) on the payments for Resident Persons

Requirement for deduction of WHT (including PAYE) on any payment which is due and payable to any of the following persons by any WHA is removed;

a) **Resident employee** in respect of the services performed (employment) by such employee.

However,

i. Retaining part of the payment of terminal benefits in lieu of income tax by the employer/ETF/Provident Fund is required. (A separate guideline has been published for this purpose by a Circular No. SEC/2020/02 dated 18.02.2020)

ii. **With effect from 01.04.2020**, on the request of employee whose gross remuneration for a month exceeds Rs. 250,000 per month or Rs. 3,000,000 for a year of assessment, an Advance Personal Income Tax could be deducted by the employer. (A separate guideline will be published for this purpose in due course)

b) **Resident person** in respect of the dividend, interest, discount, charge, natural resource payment, rent, royalty, premium or retirement payment received and /or on service performed by such individual

However, **with effect from 01.04.2020**, if any of above payment is a regular fixed payment (interest, rent etc.), on the request of the recipient, an **Advance Income Tax** could be deducted by the payer of such payment (if such payer is a WHA), as per the declaration made to the WHA. (A separate guideline will be published for this purpose in due course)

- c) **Resident partner** in respect of the partner's share of profit allocated by the partnership
- d) **Resident individual** in respect of any service fee paid [referred to in section 85(1)(a) of the IRA as published in the notice on 01.01.2020]

Accordingly, WHA is not required to deduct WHT on the above payments [except the circumstances referred to in above sub-paragraphs (a) and (b)] and taxpayers are required to declare the income from above sources also in their income tax return and make the income tax payment (after crediting Advance taxes deducted) in quarterly installment basis subject to the provisions of the IRA.

Those who have not registered for tax are required to register with IRD for this purpose.

However, WHT on following payments to be made to any person shall continue to apply:

- Amounts as winning from lottery, reward, betting or gambling – 14%.
- Sale price payable to the seller of any gem sold at an auction conducted by the National Gem & Jewellery Authority - 2.5%

2. WHT on the payments to Non-Resident Persons

Deduction of WHT is applicable by any person on or after January 01, 2020, on any payment which has a **source in Sri Lanka** and is due and payable to any non-resident person.

The tax (WHT) shall be deducted at the rate as appended, subject to the provisions of relevant Double Tax Avoidance Agreement (DTAA), on any of the following payments;

- Dividend - Exempt
- Interest (Excluding exempt Interest) - 5%

However, deduction of WHT on interest payments to any non-resident individual but who is a citizen of Sri Lanka, should be made, if his aggregate interest income from a bank/financial institution exceeds

Rs. 250,000 per month or Rs. 3,000,000 for the year of assessment (for the period from 01.01.2020 to 31.03.2020 if exceeds Rs. 750, 000)

- Any other payment [excluding the payments under section 85(2) and exempt gains & Profits]- 14%

Deduction of WHT under section 85(2) and Extraordinary Gazette Notification No. 2064/51 dated April 01, 2018, remains unchanged. Accordingly, when a resident person makes a payment to a non-resident person with respect to land, sea, air transport or telecommunication service is subject to WHT at 2% of the payment, subject to the provisions of relevant DTAA.

3. Revision of Income tax rates

Income tax rate of a company, an individual or a partnership, income tax rates on certain profits of specific industries and tax slabs of individuals are revised as appended.

i. For Companies

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| a) on taxable income of a company | - 24% |
| b) on gains and profits from following specific businesses | - 14% |
| i. Small and Medium enterprises (as defined in section 195) | |
| ii. Conducting a business of sale of goods or merchandise where the payment for such sale is received in foreign currency and remitted through a bank to Sri Lanka | |
| iii. Specified undertaking (as defined in section 195) | |
| iv. Educational services | |
| v. Promotion of tourism | |
| vi. Construction services | |
| vii. Agro processing | |
| viii. Healthcare services | |
| ix. Dividends received from a resident company | |
| c) on gains and profits from Manufacturing | - 18% |
| d) on gains and profits from conducting betting and gaming | - 40% |
| e) on gains and profits from manufacture and sale or import and sale of any liquor or tobacco products | - 40% |

ii. For individuals (Residents, non-residents)

- a) On taxable income (in the case of non-resident individuals, on the income other than final withholding payment)

Taxable Income	Tax Payable
1 st - Rs. 3,000,000	6%
2 nd – Rs. 3,000,000	12%
On the balance	18%

- b) On terminal benefits from employment

- (i). Concessionary rates

<i>Total terminal benefits from employment (Commuted pension, retiring gratuity, ETF or Approved compensation)</i>	<i>Tax Payable</i>
1 st - Rs. 10,000,000	0%
2 nd -Rs. 10,000,000	6%
On the balance	12%

- (ii). Standard rate

With respect to compensation for loss of office which has not been approved by the Commissioner General of Inland Revenue (CGIR), payment from provident fund (which is not a regulated fund or not an approved fund by the CGIR), other payments or any retirement non-cash benefit are subject to tax as specified in table to item (a) of this sub-paragraph

- c) Business consisting of betting and gaming, manufacture and sale or import and sale of any liquor or tobacco products – 40%

iii. For partnerships

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 rate is appended.

Taxable Income		Tax Rate
If taxable income consists of Gains on realization of investment assets	Gains on realization of investment assets	10%
Balance Taxable Income	Not exceeding Rs. 1,000,000	0%
	Exceeding Rs. 1,000,000	6% on the excess of Rs. 1,000,000

4. Exemptions

- 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
- any sum received by any Public Corporation out of the funds voted by Parliament from the Consolidated Fund or out of any loan arranged through the Government, on or after 01.04 2018
- 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
- 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;

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- (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)
 - 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 without subjecting such produce to any process of production or manufacture, with effect from April 1, 2019;
 - ii. providing information technology and enabled services 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;
 - 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,
 - any amount derived by
 - 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

5. Reliefs and Qualifying payments

- (i) 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.
- (ii) Personal relief for residents or non-residents but citizens for each year of assessment – Rs. 3,000,000

6. New reliefs

In the case of a resident individual, following expenditure up to a total sum of Rs. 1,200,000, incurred during a year of assessment could be deducted as relief in arriving at the taxable income.

- (a) health expenditure including contributions to medical insurance;
- (b) educational expenditure incurred locally, for such individual or on behalf of his children;
- (c) interest paid on housing loans;
- (d) contributions made to an approved pension scheme;
- (e) expenditure incurred for the purchase of equity or security.

Please note that any previous notices/circulars/guidelines published on or after 01.01.2020 including the notice issued under the reference No. PN/IT/2020-03 (Amended) dated 18.02.2020 in this regard, consists of any subject matter which is contrary to any subject matter referred to in this notice should be disregarded and this notice should be considered for reference.

Commissioner General of Inland Revenue

