

CIRCULAR TO THE CLIENTS - 14th May 2021

INCOME TAX UPDATES

This document contained a **summary of the recent amendments** to the Inland Revenue Act No. 24 of 2017 brought through the Amendment Bill of 18th March 2021, passed in the Parliament on 04th May 2021 and certified on 13th May 2021 as **Inland Revenue (Amendment) Act No. 10 of 2021**.

These are the long-awaited changes proposed by the Government since November 2019 and a few proposals of the Government Budget 2021. Majority of these were activated without a legislation.

1. A SUMMARY OF THE RECENT INCOME TAX CHANGES

1.1 REMOVAL OF WHT (PAYE) ON REMUNERATION (W.E.F. 01.01.2020)

1.1.1 Resident Employees Remuneration (Sec. 83 & 83A) –

With effect from 01.01.2020 **remuneration** of resident employee is not subject to WHT (PAYE). However, w.e.f. 01.04.2020, at the consent (request) of an employee, an **advance personal income tax (APIT)** shall be deducted. No minimum income level is applicable to make a request.

REMARKS - This is a voluntary WHT deduction system.

1.1.2 Non-resident/SL Non-citizen Employees Remuneration (Sec. 83 & 83A) –

The **remuneration** sourced in SL of a non-resident or Sri Lanka non-citizen employees, shall be liable to APIT (advance personal income tax) as specified by the CG. Consent is not required.

1.1.3 Any Employee's Terminal Benefits (both resident and non-resident) (Sec. 84 & 84A) –

The WHT liability on any employee's **employment terminal benefit income** (as an investment income) is removed with effect from 01.01.2020.

*It is to be noted that up to 31.12.2019, all the **terminal benefits other than** CGIR approved or regulated Provident Fund, **capital sums** paid as compensation or gratuity in relation to injuries suffered by the person or the death of another person, **pension or any retiring benefit** paid by the Government/Government Department of SL **were liable to WHT** as follows;*

- (i) On commuted pension, retiring gratuity, compensation on loss of office/employment paid under a scheme uniformly applicable to all employees and approved by the CGIR, receipts from ETF excluding the share of investment income earned by the Fund after 31.03.1987;
 - First Rs. 5 Mn was not liable, while the excess of Rs. 5 Million was liable @ 12%
- (ii) Compensation on loss of office/employment paid under a scheme not approved by the CGIR, Provident Fund not been approved by CGIR or not been a regulated, non-cash retirement benefits, any other payment;
 - Without any exemption it was liable @ 18%

1.2 OTHER WHT (W.E.F. 01.01.2020) (Sec.84, 84A, 85 & 85A and 1st Schedule item 10)

1.2.1 **Payments to Non-residents -**

WHT Continues / Abolished;

- Though the following income, sourced in Sri Lanka and paying to **non-residents**, continue to be liable to WHT under Sec. 85(1A), as those have been **made exempted** under Third Schedule [(i)(ii) & (oo)(ii)] to the Act, **no WHT shall be deducted** in line with Sec. 85(3);

Source of Income (Payment)	WHT %	WHT Deductible/No
1. Interest, discounts	5%	No [Exempted – 3 rd Schedule item (i)(ii)]
2. Dividends, charge, natural resource payment, rent, royalty, premium, service fee or an insurance premium.	14%	No [Exempted– 3 rd Schedule item (oo)(ii)]

- **Gems sold by any person** at an auction conducting by National Gem and Jewellery Authority is **continued** to be liable to **WHT @ 2.5%**.
- **Services fee** (land, sea, air transport or telecommunication) liable to **WHT [sec.85(2)(a)] @ 2%**
- **Share of profit allocated by a partnership to a partner** - The 8% WHT on any partner's relevant share of partnership income (allocation) is **abolished** w.e.f. 01.01.2020 to facilitate of introducing partnerships income tax (@ 6%).

1.2.2 **Payments to Residents**

WHT Continues / Abolished;

- The following Payments to residents which were liable to WHT, have been **abolished with effect from 01.01.2020;**
Dividends, interest, discounts, charge, natural resource payment, rent, royalty, premium or retirement payments, and on the service fee paid on services rendered by an individual.
- **Share of profit allocated by a partnership to a partner** - The 8% WHT on any partner's relevant share of partnership income (allocation) is **abolished** w.e.f. 01.01.2020 to facilitate of introducing partnerships income tax (@ 6%).
- Payments to **any resident person** on winnings from a lottery, reward, betting or gambling is **continued** to be liable for WHT @ 14%.
- **Gems sold by any person** at an auction conducting by National Gem and Jewellery Authority (NGJA) is **continued** to be liable for WHT @ 2.5%.
- **Introduction of optional AIT on Resident Taxpayers** - W.e.f. 01.04.2020, resident taxpayer who receives dividends, interest, discount, charge, natural resource payment, rent, royalty, premium or similar periodic payments **may make** request from the agents for **AIT (Advance Income Tax)** on such payments.

REMARKS/ADVICE

- (i) As per the above changes, w.e.f. 01.01.2020 **no mandatory WHT, APIT or AIT on receipts by non-resident persons**, other than on sale of **gems** at NGJA auction, on service fee on land, sea, air **transport or telecommunication** and on **remuneration**.
- (ii) The above will help to **promote FDI** (foreign direct investments) to the country.
- (iii) By considering the availability of reliefs & qualifying payments, opportunity cost of funds, and easiness of making APIT & AIT, the **taxpayers may plan for applying the option of paying APIT & AIT** in the way it is beneficial to each of them. (APIT & AIT not mandatory)
- (iv) **Interest and dividends** were subjected to final tax (@ 5% and 14% respectively) on certain resident tax payees (eg; dividends to any resident person and interest to a resident individual or to a charitable institution). However now those income to be included into the Assessable Income (AI) and tax at the rate/s as applicable to that taxpayer, resulting increased tax in most of the cases.
- (v) Any person who is having a taxable income, but not yet registered for income tax, **shall**;
- **open an IT file**,
 - **make self-assessed quarterly tax payments** (i.e. by on or before 15th of July, November, February, May respectively and the final by on or before 30th November) and
 - **file the duly filled IT Returns** by the due date (i.e. on or before 30th November).

1.3 ALLOWABLE DEDUCTIONS IN COMPUTING BUSINESS & INVESTMENT INCOME

1.3.1 General Allowables and Disallowables (Sec. 10 & 11)

In calculating a person's income from business or investment, expenses to the extent they are incurred during the year by the person and in the production of income from the business or investment, shall be deducted. Further, no deduction shall be allowed for an expense of a capital nature including an expense that secures a benefit capable of lasting more than 12 months. (Sec. 11).

However, the Sec. 10 lists some expenses which are specifically disallowed while Sec. 12 to 18 lists some expenses as specially allowed though not allowable under the general rules of Sec.11.

Related changes incorporated through the IR Amendment Act of 2021 is summarised below;

1.3.2 Contributions to Gratuity Funds – Sec. 10 (1) (b) (v)

Contributions **to gratuity funds** by employers which are not included into employment income are also newly included into the disallowable list. [Please be noted that, though it is included into employment income, it is not taxable, as under Sec. 5(3)(f) it is excluded].

1.3.3 Cost of Funds – Sec. 11 (4)

Cost of funds of the financial institutions incurred on the loans provided for new businesses commenced on or after 01.04.2021 by any individual successfully completed a vocational education, is made an allowable expense.

[The requirement of newly inclusion of this is questionable, as anyway the Sec.11 allows it].

1.3.4 Repair and Improvement – Sec. 14

W.e.f. 01.04.2021 the maximum limitation of claiming (i.e., 5% of WDV of depreciable buildings & 20% of WDV of other depreciable assets) of expenses is applicable only on cost of improvements & not on repair cost.

1.3.5 200% Deduction Facility for Marketing and Communication Expenses – Sec. 15A

Commencing from 01.04.2021, any person shall be entitled to an additional deduction when calculating his income from business for a year of assessment, equal to 100% of the total amount of marketing and communication expenses deducted, irrespective of its nature.

However, it needs to satisfy the following **conditions**;

- i. The receiver should not be an associate person,
- ii. Exclude:
 - a. Internal marketing expenses
 - b. Salaries of marketing staff
 - c. Expenditure on maintaining an internal marketing department
 - d. Expenditure on corporate social responsibility initiatives
 - e. Foreign travel expenses,
- iii. Expenditure shall be attributable to goods and services with 65% of local value addition, under the mode specified by the CGIR,
- iv. Total additional deduction <= Rs. 500,000,000 in any year of assessment,
- v. Maintain records and source documents.

1.3.6 200% Deduction for Research and Development Expenses Extended by 2 Years

This deduction has extended by further 02 year period (It covers 2021/22 & 2022/23 as well).

1.3.7 Finance Cost – Sec. 18 (w.e.f. 01.04.2021).

The basis of 3 times of equity (share capital + reserves) applicable in calculating the claimable upper limit of financial costs on manufacturing company is increased to 4 times.

1.3.8 Losses – Sec. 19 (3)

This amendment facilitates to set off the brought forward business losses of a company occurred during a period where a low tax rate was applicable under SME, against the subsequent non-SME period higher tax rated income (w.e.f. 01.04.2021).

1.3.9 Enhanced Capital Allowance (both 100% & 200%) – (Sec. 201 & 06th Schedule)

Additional deduction granted on new investments (other than expansions) of not more than USD 3 million on depreciable assets under 6th Schedule has been extended by another 02 years. Accordingly, it covers from Y/A 2018/19 to 2024/25 (i.e. up to 31.03.2025)

1.3.10 Increased Capital Allowance on Milking Machines (04th Schedule)

Milking machines with latest technology, used to manufacture local liquid milk related products enjoys the facility of claiming of depreciation within 2 years. (i.e. 50%) (w.e.f. 01.04.2018).

1.4 INCOME TAX EXEMPTIONS (Mainly 3rd Schedule to the Act);

1.4.1 **Strategic Development Project Act** - Amended to accommodate tax exemptions for projects of Companies under Strategic Development Project Act No. 14 of 2008 (SDPA) by superseding the IR Act. [Sec.9(3)-IR Act] (The SDPA which was inactive for several years is reactivated now).

1.4.2 **The gain on realisation of land or building which was sold to REIT** - Gain made by a person on or after 1st April 2021 from the realisation of land or building which was sold, exchanged or transferred to a Real Estate Investment Trust (**REIT**) listed in the Colombo Stock Exchange and licensed by the Securities and Exchange Commission of Sri Lanka; [3rd Sch.(hh)]

1.4.3 Any amount derived by a non-resident person as a payment for aircraft, software licences or as for other related services from the Sri Lankan Airlines Limited. (w.e.f. 01.04.2018) [3rd Sch.(t)]

1.4.4 The gain and profit earned or derived by any person from; [3rd Sch.(u)]

- (i) the sale of produce from **agro farming** of such person is exempted for a period of 5 years from 01.04.2019. [If an undertaking's agro farming produces utilizes to agro processing or manufacture of any product by itself, the exemption is applicable only on agro produce profits. As per the amendments to the 1st Schedule to the Act, **25%** of the profit attributable to such process/manufacture is **exempted**, while the balance is liable @ 14%].
- (ii) **providing IT and enabled services**, as may be prescribed. (w.e.f. 01.01.2020).
- (iii) **any service rendered in or outside SL to any persons to be utilized outside Sri Lanka** where the payment is **received in foreign currency and remitted through a bank to SL on or after 01.01.2020.**
- (iv) **any foreign source**, [except for item (iii) above] where such gains and profits are earned or derived in foreign currency and remitted through a bank to SL on or after 01.01.2020.
- (v) any **vocational education program** of any Vocational Education Institution which is standardized under Technical and Vocational Education and Training concept (TVET concept) enjoys a tax exemption for a period of 5 years commencing from 01.04.2021;
 - (a) if such institution has **doubled its student intake** of the vocational education programs for such Y/A compared to immediately preceding Y/A, **and**
 - (b) maintain the increased student intake for next 4 years.
- (vi) 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, w.e.f. 01.04.2021.

1.4.5 Amounts derived by; [3rd Sch.(v)]

- (i) **any non-resident person** from **laboratory services or standards certification services.**
- (ii) **any religious institution** which is registered with the Ministry in charge of the subject of religious affairs, by way of grants or donations (w.e.f. 01.01.2020).

1.4.6 Gains and profits received or derived from business (other than any gains from the realisation of capital assets and liabilities) by a person from following any new undertaking (which is not formed by splitting-up or re-construction of an existing undertaking) commenced on or after 01.04. 2021, subject to the conditions contained herein; [3rd Sch.(w)]

- (i) an undertaking which is involved in the **sale of construction materials recycled** in a selected separate site established in Sri Lanka to recycle the materials which were already used in the construction industry, *(a person who is involved in the provision of construction services using construction materials recycled by him from a site with the same conditions, in the provision of such services provided by him shall be deemed to have sold such materials for the construction service at a market price prevailing at the time of such deemed sale),* is exempted for a period of 10 years. (Applicable to any person, as it is not specified)
- (ii) any business commenced on or after 01.04.2021 by **an individual after successful completion of vocational education** from any Vocational Education Institution which is

standardized under Technical and Vocational Education and Training concept (TVET concept) and regulated by the Tertiary and Vocational Education Commission, is exempted for a period of 5 years.

(iii) an undertaking commenced by a resident person for the purpose of **manufacturing of boats or ships** in Sri Lanka and received or derived any gains and profits from the supply of such boats or ships, for a period of 7 years.

(iv) any renewable energy project established with a capacity to produce not less than 100 Mega Watts of solar or wind power and supplied such power to the national grid, for a period of 7 years. (*Applicable to any person, as it is not specified*)

(v) an undertaking commenced on or after **01.01.2021** by any resident person who **constructs and installs communication towers and related appliances** using local labour and local raw materials in Sri Lanka or provides required technical services for such construction or installation, for a period of 5 years.

[Date 01.01.2021, contradicts the date of 01.04.2021 given in the principal part of this section (w)]

(vi) an undertaking for **letting bonded warehouses or warehouses related to the offshore business** in the Colombo and Hambantota Ports if such person has invested on such undertaking on or after 01.04.2021. (*Applicable to any person and exempted forever*).

Tax exemption periods provided in the above subparagraphs *[other than in subparagraph (vi)]* shall be reckoned from the Y/A in which the undertaking commences to make profits (*business AI*) or from the commencement of the Y/A immediately succeeding the Y/A in which the undertaking completes a period of 2 years reckoned from the date on which the undertaking commences to carry on commercial operations, whichever occurs earlier."

A Summary of the Tax Holidays explained above; (3rd Schedule to the Act)

Industry	Effective Date	Exempt Period
Strategic Development Projects (SDP) [Sec.9(3)-IR Act]	As approved	As approved
Realisation Gain on land or building sold to REIT	01.04.2021	Open
Non-resident's certain service income from the SL Airlines Ltd	01.04.2018	Open
Agro-farming	01.04.2019	5 Years
IT Enabled Services	01.01.2020	Open
Local/foreign services to be utilized outside SL	01.01.2020	Open
Vocational Educational Institute expansion (doubling students)	01.04.2021	5 Years
Gold, gems, jewellery exports & gem processing for export	01.04.2021	Open
Non-resident's laboratory & standards certification services	01.01.2020	Open
Recycling & sale of such recycled construction materials	01.04.2021	10 Years
Businesses commenced after successful vocational education	01.04.2021	5 Years
Boat and ship building	01.04.2021	7 Years
Solar or wind power projects not less than 100 MW	01.04.2021	7 Years
Construct communication towers & install appliances	01.04.2021	5 Years
Letting out bonded warehouses for offshore businesses	01.04.2021	Open

REMARKS/ADVICE

Though the Government Budget 2021 proposed to grant 5 years income tax holiday on processing of milk power it is not incorporated into the Amendment Act.

1.4.7 A dividend paid by a resident company; [3rd Sch.(oo)]

- (i) To a member out of dividend received, (w.e.f. 01.04.2018) (Original Act) (To any member)
- (ii) To a non-resident member, (w.e.f. 01.01.2020) (No categorization of the profit)
- (iii) Which engaged in any one or more of following businesses in accordance with the provisions of the Finance Act, and which has entered into an agreement with the BOI, (w.e.f. 01.01.2020) (To any member)
 - entrepot trade involving import, minor processing and re-export;
 - 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;
 - providing front-end services to clients abroad,
 - headquarters operations of leading buyers for management of financial supply chain and billing operations,
 - logistic services including bonded warehouse or multi-country consolidation in Sri Lanka.

(Note that each of the item (i), (ii) & (iii) given above are independent. Further, as per the above a resident person is exempted on dividend income only if it covered under (i) or (iii) above)

1.4.8 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 (holding 10% or more shares / control 10% or more voting power) in the non-resident company. (w.e.f. 01.04.2018) [3rd Sch.(r)] (Original Act with a modification)

1.4.9 Dividends 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 Real Estate Investment Trust (REIT) listed in the CSE. [By referring item (hh) of 3rd Schedule, it is assumed that it is effective from 01.04.2021] [3rd Sch.(rr)]

1.4.10 Interest earned by any; [3rd Sch.(i)]

- **Charitable institution**, only if it applies for the purpose of providing care for children, the elderly or disabled in a home maintained by such institution. (Original Act)
- **any person outside SL (overseas lenders)** on any loan granted to any person in Sri Lanka.
- **any person** on any foreign currency account deposits in any commercial/specialised bank with the approval of CBSL on or after 01.01.2020.
- **any person** from any Special Deposit Account with an authorised dealer in SL under Foreign Exchange Act either in designated foreign currency or in SL Rs. on or after 08.04.2020.
- **any welfare society** on or after 01.04.2021.

- **any multi-national company** on any deposit in foreign currency in any domestic bank, if such deposit is maintained to cover its import expenditure for that year of assessment, on or after 01.04.2021.

1.4.11 Any interest, discount or realization gain earned by a non-resident person on any Sovereign Bond denominated in local or foreign currency (w.e.f. 01.04.2018). [3rd Sch.(I)]

1.4.12 Interest or discount paid or allowed to **any person** on any foreign currency Sovereign Bond, including SL Development Bonds (w.e.f. 01.04.2018). [3rd Sch.(I)] (*Original Act with a modification*)

1.4.13 A gain from realization of SL international sovereign bonds and received/derived by a commercial bank/authorized dealer who made an aggregate investment not less than USD 100 million in such bonds on or after 01.04.2021. [3rd Sch.(II)]

1.4.14 Interest or discount accrued or derived on or after 01.04.2021 **by any Samurdhi community-based banks** from security/treasury bonds or treasury bills. [3rd Sch.(III)]

1.4.15 Any sum received by; (on or after 01.04.2018) [3rd Sch.(k)]

- **any person from** the President's Fund or the National Defence Fund (Original Act)
- **any Public Corporation** out of the funds voted by Parliament from the Consolidated Fund or out of any loan arranged through the Government.

REMARKS/ADVICE

Even a Company declares dividends out of it's tax exempted profits, except for BOI companies covered under item (oo)(iii) of 3rd Schedule detailed in para 1.3.7 above, in all other cases the recipient resident persons (resident shareholder whether an individual, company or otherwise) are liable to income tax on their hands. It shows an unfair situation and a deviation from the expectations of granting tax holidays.

1.5 RELIEFS & QUALIFYING PAYMENTS

1.5.1 Post Covid-19 Economic Recovery Special Tax Reliefs (Sec. 58 of IR Amendment Act)

(1) The **CG shall write off** any income tax arrears payable **by any SME** for the Y/A commencing on 01.04.2019, if such arrears arise due to any assessment made (other than the assessments made for tax payments as per the returns but including any penalty) up to the Y/A ending 31.03.2019 which is outstanding as at 26.06.2020, in the records of the CG;

(a) if such assessment was made as per the provisions of this Act or the provisions of the former Inland Revenue Acts (No. 10 of 2006, No. 38 of 2000 or No. 28 of 1979); **but**

(b) subject to the deduction of any refunds duly claimed by such person as provided in any tax Act administered by the CG from such income tax arrears.

(2) Subject to Sec. 136, the Assistant Commissioner **(AC) shall not amend** the self-assessment under the provisions of Sec. 135 for the Y/A ending on 31.03.2020, where the AC is satisfied that there is no fraud or willful neglect involved in the disclosure of income or any deduction or relief by such SME and paid the tax declared in the return.

- (3) The **CG shall not impose any penalty or initiate criminal proceedings** under Chapter XVIII against a person who-
- (a) files return of income for the Y/A 2019/20 before 30.06.2021; and
 - (b) makes the payment of tax payable on assessment referred to in Sec. 82(2)(c)(ii) for the Y/A 2019/20 before 30.06.2021.

REMARKS/ADVICE

*As per the newly introduced **Post Covid Economic Recovery Special Tax Relief Section**, unless the AC is in a position to prove that a fraud or willful neglect involved, the CG and ACs refrain from taking assessing & recovery actions and instead **shall write off** any IT outstanding as at 26.06.2020 by the **SME** for any Y/A ending on or before 31.03.2019. If such action is taking by the CG or AC, the taxpayer shall object to that.*

1.5.2 Reliefs (4th Schedule)

- (i) **Personal relief** of Rs. 500,000 for the residents or non-resident but citizens for each year of assessment have been **increased to Rs. 3 million** w.e.f. 01.01.2020. This personal relief is not entitled to deduct against the gains on realization of investment assets.
- (ii) The **employment allowance relief** of Rs. 700,000 is **abolished** w.e.f. 01.01.2020.
- (iii) The **senior citizen's interest income relief** of Rs. 1,500,000 is **abolished** w.e.f. 01.01.2020.
- (iv) **Relief on individuals & partners on foreign currency services income** of Rs. 15mn per annum is **abolished** w.e.f. 01.01.2020 as such entire income is exempted. [Refer para 1.3.4 (iii) above]
- (v) A **resident individual** is entitled to enjoy a **relief on following expenses** (incurred on or after 01.01.2020) up to **Rs. 1.2 million** per Y/A;
 - **Health** expenditure including medical insurance,
 - **Educational** expenditure incurred locally (own education of children's' education),
 - **Interest on housing loans**,
 - Contribution to an **approved pension scheme**,
 - Expenditure on **purchase of equity/security**.
- (vi) Any **resident individual** who has acquired **solar panels** to fix on his premises and connected to the national grid is entitled to claim a relief up to Rs. 600,000 for each Y/A on account of;
 - the **total expenditure** on such solar panels or
 - the amounts **paid to a bank** in respect of any loan obtained to acquire such solar panels.

*(Why it covers only the **panels & not the entire solar system** and out of lenders **only the banks**?)*

1.5.3 Qualifying Payments (5th Schedule)

- (i) **Contribution made by a resident individual** (in money or otherwise) to establish a shop for a female individual who is from a Samurdhi beneficiary family as recommended and confirmed by the Department of Samurdhi Development. [5th Sch. item (1)(d)], (w.e.f. 01.04.2021)
- (ii) **Expenditure incurred** on or after 01.04.2021, **by any person**;
 - in the **production of a film** at a cost of (including promotional expenditure of such film) not less than Rs. 5 million,
 - in the **construction and equipping of a new cinema** at a cost of not exceeding Rs. 25 million,
 - in the **upgrading of a cinema** at a cost of not exceeding Rs. 10 million,

Provided that this deduction shall be restricted to 1/3rd of the taxable income of the Y/A, with the C/F & claiming facility of the non-deducted amount in the next succeeding year and so on, subject to 1/3rd restriction. [5th Sch. item (1)(f)]

- (iii) **Expenditure incurred by any financial institution** by way of cost of acquisition or merger of any other financial institution and as confirmed by the CBSL can be claimed as a qualifying payment over a period of 3 years of assessment (1/3rd per Y/A). The balance unclaimed amount, if any, due to the limitation of AI could be carried forward and claim immediately after 3 years. [5th Sch. item (1)(e)] (w.e.f. 01.04.2021)
- (iv) The qualifying payment on sums paid to the President's Fund **by a public corporation** is extended to such payments to Consolidated Fund as well. (w.e.f. 01.04.2019) [5th Sch. item(1)(c)].

1.6 A SUMMARY OF APPLICATIONS & EFFECTS TO DIFFERENT PERSONS (TAXPAYEES)

1.6.1 Individuals

(i) Interest and dividends

- **No more WHT on interest income & dividends** - Interest and dividends which were subjected to final tax (@ 5% and 14% respectively) are now (w.e.f. 01.01.2020) to be included into the Assessable Income (AI) and tax at the rate/s as applicable to that taxpayer. Depending on the level of income, the low-income earning individuals may be benefited, while high income earners will be badly affected (*As an example, the effective tax rate on such interest and dividend income of an individual having more than Rs. 9 million per Y/A is 18%*).
- No more **tax relief on Senior citizens interest income** (Former relief was Rs. 1.5 million).

(ii) Employment income (remuneration)

- No more WHT (PAYE) on remuneration – Accordingly, w.e.f. 01.01.2020, no need of recognizing the employment as primary employment or as secondary employment.
- No more employment allowance (relief) of Rs. 700,000 p.a.
- W.e.f. 01.01.2020, the tax concessions on **terminal benefits** (whether resident/non-resident) are expanded and taxing as follows;

(i) Commuted Pension, Retiring Gratuity, EPF or Approved Compensation

Taxable terminal benefits (Approved/regulated)	Tax Rate
First Rs. 10 million	0%
Next Rs. 10 million	6%
Balance	12%

- (ii) **Compensation for loss of employment** (which has not been approved by CGIR), **provident funds** (which are non-regulated or non-approved by CGIR), **other payments** and **non-cash benefits** – These are to be taxed at standard rates. (i.e. 6%, 12%, 18%)

(iii) Tax Reliefs & Qualifying Payments (5th Schedule) –

- Individuals are entitled to a new “relief” on certain expenditure **up to Rs. 1.2 mn**, w.e.f. 01.01.2020 [Refer item (ii) of paragraph 1.4.2 above].
- **Personal tax-free allowance** (relief) for individuals increased to **Rs. 3 mn** (w.e.f. 01.01.2020).

(iv) The individuals (residents/non-residents) personal tax slabs & rates for 2020/21 & onwards;

Taxable Income (after allowing all eligible QPs & Reliefs from AI)		Tax Rate
1 st	Rs. 3,000,000	6%
2 nd	Rs. 3,000,000	12%
On the balance		18%

However;

- the individual's betting & gaming, manufacture and sale or import and sale of any Liquor or tobacco product **business income** to be taxed @ **40% flat rate**. (Effective from 01.01.2020)
- the individual's **gains and profits** in respect of gems & jewellery and supply of electricity (generated by using renewable energy resources) to national grid to be taxed @ **maximum rate of 14%**. (Act has used "consideration/amounts received" instead of gains and profits).

REMARKS/ADVICE:

(i) With the current situation all individuals including employees having monthly assessable income (AI) exceeding Rs. 250,000 should;

- **open** personal tax files immediately,
- **pay** quarterly income tax, and
- **file** individual tax returns (by 30th November of the immediate subsequent year).

(ii) Any individual who wishes to continue with WHT on remuneration & on certain receipts may advise the agent (employer/payer) to deduct APIT or AIT as applicable.

1.6.2 Partnerships

WHT of 8% on any partners share of partnership profit (allocation) is **abolished** w.e.f. 01.01.2020.

W.e.f. from 01.01.2020, the partnership's taxable income is **liable to tax** as follows;

Taxable Income	What part of taxable Income	Tax Rate
Gains on realization of investment assets, if any	Gains on realization of investment assets (No exempted threshold)	10%
Balance taxable income	Not exceeding (<i>up to</i>) Rs. 1,000,000	0%
- Do -	Exceeding Rs. 1,000,000	(Only on excess) 6%

1.6.3 Trusts

The tax rate of trusts is reduced from 24% to 18% w.e.f. 01.01.2020.

1.6.4 Companies

Income Tax Rates;

With the new amendments the income tax rates of Companies are as follows; (w.e.f. 01.01.2020)

14% - SME as defined in Sec. 195. *1

14% - Business of sale of goods or merchandise including export of goods, where the proceeds in foreign currency is remitted through a bank to Sri Lanka *1.

14% - Specified Undertakings as defined in Sec. 195 (As detailed below) *1

14% - Education, Promotion of Tourism, Constriction Services, Agro-processing and Healthcare, *1,

14% - Dividends received from a resident company.

- 14%- Supply of health protective equipment and similar products by BOI export company to the Ministry of Health, SL Army, SL Navy, SL Airforce, SL Police and COVID Center. *¹
- 14% - Y/A 2022/23, 2023/24 & 2024/25 of a company which lists shares with CSE during 01.01.2021 to 31.12.2021. *(It overrules all other provisions of this or any other Acts charging higher IT rate/s).* *¹
- 14% - Gains and profits from consideration received in respect of gems and jewellery.
- 14% - Gain and profit from supply of electricity generated by using renewable energy resources to national grid.
- 18% - Manufacturing (not covered under the five types of business marked with *¹ above).
- 40% - Conducting Betting & Gaming
- 40% - Manufacture & sale or import & sale of any Liquor or Tobacco product.
- 10% - Capital Gains (continues @ 10%)
- 24% - On any other taxable income of a company.

Special Tax Rebates for Companies - Following new tax rebates are introduced w.e.f. 01.04.2021;

- (i) **50% rebate** on the aggregate non-capital gain income tax payable for the Y/A 2021/22 (including IT computed as per BOI agreements) by **any company which lists its shares in the CSE** during 01.01.2021 to 31.12.2021.
- (ii) Following income tax rebates on such part of income tax payable **on gains and profits from dividends by any multi-national company;**

Y/A 2021/22 -	25% rebate
Y/A 2022/23 and for 2023/24 -	50% rebate

Conditions to be fulfilled by Companies, other than specified undertakings, to enjoy rebates;

- (a) Needs an increase in exports by 30% in Y/A 2021/22 than Y/A 2020/21, or
- (b) Needs an increase in exports by 50% in Y/A 2022/23 than Y/A 2020/21.

- (iii) If an undertaking's agro farming produces utilizes to agro processing or manufacture of any product by itself, as per the amendments to the 1st Schedule to the Act, **25%** of the profit attributable to such process/manufacture is **exempted**, while the balance is taxable (@ 14%).

"Specified Undertakings" as defined in Sec. 195 includes the following;

- Entrepot trade,
- Offshore business,
- Front end services to overseas clients,
- Headquarters' operations,
- International trading related logistic services,
- Transshipment operations,
- Freight forwarding,
- Supply of services *(being services which could be treated as essentially related to the manufacture of such goods or provision of such services exported by the exporter directly or through export trading house) (including services providing by a shipping agent to its foreign principal)* to any exporter of goods or services or directly to any foreign principal of such exporter,
- Production or manufacture of non-traditional goods,
- Supply of non-traditional goods to an exporter exporting such goods,

- Some specified services connected with ships & container repair, braking & refurbishing, IT & computer data and services specified by the Minister,
- Sale of gems & jewellery for foreign currency,
- As an import replacement, sale of goods (*during the period 01.04.2021 to 31.03.2024 and up to the approved quantity*) manufactured in SL by a Sec. 17 BOI company to any Sec. 17 BOI Company which is permitted to import project related goods/raw materials on duty free basis or to any person eligible to import specific goods on duty free basis,
- Bunkering services provided for supply of marine fuel including the supply to local bunker suppliers within a port premises.

REMARKS

*As per the above proposals the **agro farming (without any process of production/manufacture)** made exempted on the hand of all taxpayers w.e.f. 01.04.2019. However, agricultural produces (harvests) are generally perishable in nature and hence blocking the tax concessions on basic mandatory processing activities is not practical as it does not meet the intentions of offering tax concessions. Further the definitions given for **agro-farming & agro-processing are incomplete & not comprehensive enough**.*

Please note that this is a document prepared as a general guidance. For specific applications, please consult us or refer the related legislations.

For clarifications, you may contact;

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**RANAWEERA ASSOCIATES
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14th May 2021

FURTHER REFERENCES:

- ***Inland Revenue Act No. 24 of 2017***
- ***Inland Revenue (Amendment) Act No. 10 of 2021***
- ***Related Webinar Videos uploaded into our YouTube Channel - [Tax Talk](#)***
- ***Related Notes uploaded into our Web Site (www.ranaweeraasso.lk)***

