

# VALUE CREATION 2021

# HIGHLIGHTS OF THE FINANCE ACT NO. 18 OF 2021 (TAX AMNESTY)

**International Membership** 







Presented by; Athula Ranaweera

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## 1. Introduction

- What a Tax Amnesty is?
- History of Tax Amnesties of Sri Lanka?
- What a Government Expects from Tax Amnesties?
- Factors Influencing to a Success of a Tax Amnesty?
  - Coverage & Declarants Confidence.
  - How Often the Tax Amnesties are Repeating
  - User Friendliness
  - Unfairness to the Genuine Taxpayers & Public Objections





## **COVERAGE OF THE ACT & CG's GUIDELINE**

- Part 1 Voluntary Disclosure Immunities & Tax There On
- Part 11 Write off by CGIR Specified Tax & Penalty Arrears
- Schedules Covering Tax Laws & Declaration Formats
- Specified Form for Voluntary Disclosure Individuals
- Specified Form for Voluntary Disclosure Entities
- CG's Guidelines As Published on 17th September 2021
- CG's Explanatory Notes As Published on 17th September 2021

## Reference Slide No.

- (Slide 4 7)
- (*Slide 8 12*)
- (Slide 13 & 14)
- (Slide 15 & 16)
- (Slide 17 & 18)
- (Slide 19 21)
- (Slide 22 27)



- 2. IMPOSING THE TAX ON VOLUNTARY DISCLOSURE PART 1 OF THE ACT (Sec. 2)
- Apply to any person who has not disclosed any amount of taxable 'supply, 'income or 'asset' which was required to be disclosed under any law specified in Schedule I (IT & VAT) in a VAT Return for any taxable period ended, or in a return of income for any Y/A ended on or prior to 31.03.2020. (He/it is the person to whom this Part applies) (Sec.2) \*Taxable Asset?
- Persons to whom it is <u>not applicable</u>:

- \*The term "person" is not defined?
- (a) any person in relation to whom <u>investigations or legal proceedings</u> are pending under <sup>1</sup><u>Money Laundering</u> Act, <sup>2</sup>Convention on the Suppression of <u>Terrorist Financing</u> Act, <sup>3</sup><u>Bribery</u> Act & <sup>4</sup>Conventions Against illicit Traffic in <u>Narcotic Drugs</u> and Psychotropic Substances Act (Sch. II)
- **(b)** any person who has been <u>convicted of an offence</u> under above four Acts (Schedule II Acts)
- (c) any amount of undisclosed taxable supply, income or asset held by any person, in respect of which an Assessment has been made under Acts specified in Sch. I and IV [IT, VAT, Betting & Gaming, Finance Act No. 11 of 2002, Stamp Duty Act & Stamp Duty (Special Provisions)Act] (Only if such amount has been considered into the assessment)
  - (i) If the assessment is made & already finalized? (ii) Suppose it finalized & agreed payment is due?



- 2. IMPOSING THE TAX ON VOLUNTARY DISCLOSURE PART 1 OF THE ACT (Contd.) (Sec. 3 & 4)
- **2.2** The person **shall invest/deposit** an amount equivalent to the undisclosed **taxable** <u>supply</u>, <u>income</u> or <u>asset on or after</u> the date of commencement of this Act (**15.09.2021**) but <u>prior</u> to **31.03.2022**;
  - (a) Immediately purchase/ invest such amount in;
    - Shares of a resident company
    - Treasury bill/bond
    - Any <u>quoted</u> debt securities
    - Any movable or immovable property in Sri Lanka,
  - (b) If unable invest immediately as above, shall deposit in a bank account (in any currency).

## 2.3 The Tax which should be paid before Voluntary Disclosure;

- 1% of such amount/income/on the cost of such asset newly invested or deposited.
- 1% on the <u>market value</u> of such property on the date of the declaration (<u>in the case of declaring any immovable or movable property</u>).

**No credit/refund** on the tax paid as above.

Said tax is not an expenditure under the Inland Revenue Act, No. 24 of 2017.

## **Two Options**

- 1. Invest in Assets before 31.03.2022
- 2. Deposit before 31.03.2022
- \* If an asset purchased prior to 15.09.2021?



- 2. IMPOSING THE TAX ON VOLUNTARY DISCLOSURE (Contd.) (Sec. 5)
- **2.4** Any person to whom this part applicable & fulfilled above requirements (para 2.2 and 2.3), shall **on or prior to 31.03.2022** <u>submit a declaration</u> (undisclosed taxable <u>supply</u>, <u>income</u> or <u>asset</u>) in the <u>specified form</u> to the Commissioner General (CG).
  - The CG has issued a guideline (on the manner of payment & filing) 17.09.2021 (Slide 19-21).
  - The CG shall verify whether the declaration is in accordance with the Act.
  - If satisfied, CG shall accept the declaration in writing within 30 days of receipt.
  - If not satisfied, CG shall reject a declaration and inform in written within 30 days of receipt.
  - Declarant is entitled to **submit a fresh declaration** within 30 days of receiving the rejection.
  - If <u>CG failed to inform</u> the declarant within 30 days, it shall be <u>deemed to have been accepted</u>.
  - Any declarant who provides false or incorrect information in the declaration, **shall not be entitled to the immunity granted**, notwithstanding CG's acceptance of such declaration.



- 2. IMPOSING THE TAX ON VOLUNTARY DISCLOSURE (Contd.) (Sec. 6)
- **2.5** A declarant whose declaration has been accepted & paid the applicable tax is **entitled to enjoy the full immunity** from <sup>1</sup>liability to <u>pay any tax</u>, <sup>2</sup><u>penalty</u> or <sup>3</sup><u>interest</u> or from any <sup>4</sup><u>investigation</u> or <sup>5</sup><u>prosecution under</u>;
  - IR Act for any period ending on or prior to 31.03.2020 and
  - **VAT Act** for any **year of any period ending on or prior to 31.03.2020,** only if the tax has not been collected by the declarant (*Sec.* 6)
  - The CG **shall ensure** the granting of full immunity to the declarant.
- **2.6** The CG or any officer of the Department of Inland Revenue, shall preserve and aid in preserving **absolute secrecy** in respect of; (*IR Act Sec.100 provisions applies for breaching*)
  - (i) identity of a declarant, and
  - (ii) any matter or thing contained in a declaration. (Sec. 7)



- 2. IMPOSING THE TAX ON VOLUNTARY DISCLOSURE (Contd.) (Sec. 6)
- **2.7** Where any person to whom this Part applies **fails to comply** with the provisions of this Act, he shall be liable to be dealt with in terms of the provisions of the respective law specified in Schedule I or IV [IT, VAT, Betting & Gaming, Finance Act No. 11 of 2002, Stamp Duty Act & Stamp Duty (Special Provisions)Act] . (Sec. 8)
- **2.8** The provisions discussed under Part 1 of the Act (as above) shall apply to any person to whom provisions related, **notwithstanding** anything done or any amnesty granted under the provisions of Inland Revenue (Regulation of Amnesty) Act, No. 10 of 2004. (Sec. 9)

## Remark:-

By reading the <u>Section 8 of the Act</u>, it indicate that **this law is forcing** (threatening) <u>the persons to whom this Part applies</u> to comply with this Act. (a)



## 3. PROVISIONS TO WRITE OFF TAX ARREARS BY CG (Act Part II, Sec. 10 - 15)

To enjoy the immunities under this part (Part II) no declarations required. How practical is it?

- **3.1 Coverage:-** These provisions shall apply to <u>any person</u> (referred to as "taxpayer") <u>who, is</u> <u>'liable to pay any tax arrears</u> or <u>any penalty imposed</u> under the provisions of any law specified in <u>Schedule I, Schedule III or Schedule IV</u> (*refer Slide 13 & 14*)
  - for; In the case of IT :- any Y/A commencing prior to 01.04.2020 or
    - In the case of VAT :- for any period commencing prior to 31.12.2020. (Sec. 10)
- 3.2 Immunities:-
- **3.2.1** The CG shall write off the following tax arrears in respect of any period ending on or prior to 31.12.2020, in relation to a "taxpayer"; (Sec. 11)
  - under any law in Part A of Schedule III hereto (various old taxes refer Slide 13 & 14),
  - under the specific provisions of the Value Added Tax Act, specified in Part B of Schedule III (VAT), in respect of any **period ending on or prior** to **31.12.2020**, in relation to a "taxpayer".(Sec. 11)



- 3. PROVISIONS TO WRITE OFF TAX ARREARS BY CG (Act Part 11) (Contd.)
- **3.2.2** The **CG shall write off,** any <u>income tax</u> arrears payable (under the provisions of any income tax laws specified in Schedule I) as at 31.12.2020, by <u>any individual</u> whose;
  - Assessable income <= Rs. 3,000,000 **for the Y/A ending on 31.03.2020.** (Y/A 2019/20)
  - However, the above immunity <u>does not apply</u> if the individual's;
  - AI before deducting any loss (including unrelieved loss) > Rs. 3,000,000p.y/a
  - AI along with final WHT deducted income & tax exempted income > Rs. 3,000,000p.y/a
  - Business/partnership gross turnover for the Y/A ended on 31.03.2020> Rs. 500,000,000p.a.
  - AI includes an income from conducting a <u>business of betting & gaming</u> **or** any <u>business of liquor</u> excluding such income merely incidental to another business. (Sec. 12)



- 3. PROVISIONS TO WRITE OFF TAX ARREARS BY CG (Act Part 11) (Contd.)
- 3.2.3 The CG shall write off any <u>penalty or interest</u>, calculated in terms of the provisions of any law specified in Schedule I (*IT & VAT*) or Schedule IV (*Betting & Gaming levy, Finance Act, Stamp Duty Act & Stamp Duty Special Provisions Act*) hereto, in respect of which the **payment due date was 31.12.2020 or a prior date**, if the taxpayer **settles the full amount** of the tax outstanding, <u>on or before 31.03.2022</u>. (*Sec. 13*)
- **3.2.4** Following disputed tax arrases on an assessment made in relation to the taxpayer, under the provisions of any respective law specified in Schedule I or Schedule III hereto shall not be written off;
  - If there is any dispute in relation to any tax arrears where;
    - the <u>hearing was happening</u> prior to 15.09.2021, or the <u>decision was pending by 15.09.2021</u> before the **Tax Appeals Commission** or **any Court** of law. (*Sec. 14*)



- 3. PROVISIONS TO WRITE OFF TAX ARREARS BY CG (Act Part 11) (Contd.)
- **3.2.5** Any duly claimed **pending tax refund** payment on the date of commencement of this Act, under the provisions of any law specified in Schedule I, Schedule III or Schedule IV hereto, for any period **ending prior to 31.12.2020** <u>shall be</u> **set off against any tax arrears written off.** (however, the provisions of this section <u>shall not apply</u> to any penalty imposed by law in a **period subsequent to the period** in which the refund is due). (Sec. 15)
- **3.2.6** The CG shall **communicate in writing**, the amount of refund to be set off against the tax arrears. If the taxpayer dissatisfied with such decision, he shall make a **written request** within a period of **14 days** from the date of the communication of the CG, and shall **settle the full amount of the tax arrears on or before 31.03.2022.** (Sec. 16)
- **3.2.7** On taxpayer's request the CG may grant approval for arrears tax payment plans and shall write-off any interest or penalty if the taxpayer acts in compliance with the plan. (Sec. 17)



## **Schedule I**

- 1. Inland Revenue Act, No. 28 of 1979
- 2. Inland Revenue Act, No. 38 of 2000
- 3. Inland Revenue Act, No. 10 of 2006
- 4. Inland Revenue Act, No. 24 of 2017
- 5. Value Added Tax Act, No. 14 of 2002

## **Schedule IV**

- 1. Betting & Gaming Levy Act, No. 40 of 1988
- 2. Finance Act, No. 11 of 2002
- 3. Stamp Duty Act, No. 43 of 1982
- 4. Stamp Duty (Special Provisions) Act, No. 12 of 2006

## **Schedule II**

- 1. Prevention of Money Laundering Act, No. 5 of 2006
- 2. Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005
- 3. Bribery Act (Chapter 26)
- 4. Conventions Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances Act, No. 1 of 2008





## Schedule III - A

- 1. Wealth Tax and Gifts Tax imposed under Inland Revenue Act, No. 28 of 1979
- 2. Turnover Tax Act, No. 69 of 1981
- 3. Surcharge on Wealth Tax Act, No. 25 of 1982
- 4. Surcharge on Wealth Tax Act, No. 8 of 1989
- 5. Surcharge on Income Tax Act, No. 26 of 1982
- 6. Surcharge on Income Tax Act, No. 12 of 1984
- 7. Surcharge on Income Tax Act, No. 7 of 1989
- 8. National Security Levy Act, No. 52 of 1991
- 9. Save the Nation Contribution Act, No. 5 of 1996
- 10. Goods and Services Tax Act, No. 34 of 1996
- 11. Surcharge on Income Tax Act, No. 6 of 2001
- 12. Debits Tax Act, No. 16 of 2002
- 13. Social Responsibility Levy imposed under Finance Act, No. 5 of 2005
- 14. Economic Service Charge Act, No. 13 of 2006
- 15. Nation Building Tax Act, No. 9 of 2009
- 16. Economic Service Charge imposed under Finance Act, No. 11 of 2004

## Schedule III - B

- 1. Optional Value Added Tax imposed under section 25H of the Value Added Tax Act, No.14 of 2002
- 2. VAT Advance Payment deducted under section 26A of the Value Added Tax Act, No.14 of 2002



# HIGHLIGHTS OF THE FINANCE ACT NO. 18 OF 2021 (TAX AMNESTY) (Contd.) SPECIFIED FORM FOR VOLUNTARY DISCLOSURE - INDIVIDUALS



### Part I

Tax on Voluntary Disclosure

Finance Act, No. 18 of 2021

DECLARATION UNDER SECTION 5

To be furnished by an Individual

National Identity Card No.
Passport No.
1. I, Rev./ Mr./ Mrs./ Miss/
(full
name) holder of NIC No./ Passport No of
(address) make a
declaration with respect to the taxable supply, income or asset in
terms of Part I of the Finance Act, No. 18 of 2021.

 I do hereby declare following taxable supply, income or asset which were held by me as at March 31, 2020 in Sri Lanka or any other country.

	11 //	Account	Amount / Market Value
Total Amount / Market Value			

- REMARKS:- 1. How come a <u>Taxable Asset</u> when there is no wealth tax?
  - 2. How a supply represent as at a date?
  - 3. Next page item 3 "Money" is wrong it should be amount/value
  - 4. Next page item 5 "pending cases" should use the words "legal proceedings" as given in the Sec. 2(2)15

# HIGHLIGHTS OF THE FINANCE ACT NO. 18 OF 2021 (TAX AMNESTY) (Contd.) SPECIFIED FORM FOR VOLUNTARY DISCLOSURE - INDIVIDUALS



		declared as above are- ted on -	
(1)	Invest	ed oil -	
	(a)	(quantity) shares/ debt securities of (name of the	
		company), amounting to Rs	
	(b)	treasury bills / treasury bonds issued by the Central Bank of Sri Lanka Rs	
	(c)	immovable property such as land, building, motor vehicle, gold etc. please specify) in Sri Lanka Rs	1
(ii)	depos	ited in my account bearing	1
	No	at the	1
to in par Finance	agraph Act, No	aid the tax on aggregate amount/ market value referred 2, at the rate of 1% in terms of section 4 of the 18 of 2021 amounting to Rs	
No		General of Inland Revenue.	1

- In relation to the amount of taxable supply, income or asset declared—
  - (a) I have no investigations or pending cases or, I have not been convicted of an offence, under the provisions of Prevention of Money Laundering Act, No. 5 of 2006, Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005, Bribery Act (Chapter 26), or Conventions Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances Act, No. 1 of 2008; or
  - (b) No assessment has been made under any law referred to in Schedule I or Schedule IV of the Finance Act, No. 18 of 2021.

I do solemnly and sincerely declare that the above particulars given by me herein are, true and correct to the best of my knowledge and belief.

Date:	
	Signature of the declarant

Note: Where the space in this form is inadequate, a separate sheet of paper may be used and signed by the declarant.

(The declaration shall be submitted, on or prior to March 31, 2022, to the Commissioner-General of Inland Revenue)

# HIGHLIGHTS OF THE FINANCE ACT NO. 18 OF 2021 (TAX AMNESTY) (Contd.) SPECIFIED FORM FOR VOLUNTARY DISCLOSURE - ENTITIES



Tax on Voluntary Disclosure

Finance Act, No. 18 of 2021

### DECLARATION UNDER SECTION 5

To be furnished by an entity (\*company, partnership, fund, society, NGO etc.)

Taxpayer Identification No.			
Type of the Entity:			
Entity Registration No.			
1. 1, M1./ M15./ M155/(1011			
name) holder of NIC No of			
(address) being			
(designation)			
of ( name of the			
entity) is the authorized person to make a declaration with respect to			
the amount of taxable supply, income or asset of the above			
(type of entity) in terms of			
Part I of the Finance Act, No.18 of 2021.			

<ol><li>I do hereby declare following taxable supply, income or</li></ol>
asset which were held as at March 31, 2020 in Sri Lanka or any other
country by (name
of the entity).

supply, income	11 37	Account	Amount / Market Value
Total Amount / l	Market Value		

- REMARKS:- 1. How come a <u>Taxable Asset</u> when there is no wealth tax?
  - 2. How a supply represent as at a date?
  - 3. In item 3 "Money" is wrong it should be amount/value.
  - 4. Next page item 5 "pending cases" should use the words "legal proceedings" as given in the Sec. 2(2)

## **HIGHLIGHTS OF THE FINANCE ACT NO. 18 OF 2021** (TAX AMNESTY) (Contd.) **SPECIFIED FORM FOR VOLUNTARY DISCLOSURE - ENTITIES**



3. Money declared as above are -	<ol><li>In relation to the amount of taxable supply, income or asset declared—</li></ol>
(i) invested on -  (a)	(a) the
(c)(movable or immovable property such as land, building, motor vehicle, gold etc. please specify) in Sri Lanka	(b) No assessment has been made under any law referred to in Schedule I or Schedule IV of the Finance Act, No. 18 of 2021.
Rson	I do solemnly and sincerely declare that the above particulars given by me on behalf of
4. I have paid the tax on aggregate amount/ market value referred to in paragraph 2 on behalf of the*	Signature of the Chairman/Managing Director/ Partner/President
at the rate of 1% in terms of section 4 of the Finance Act, No. 18 of 2021 amounting to Rs	Note: Where the space in this form is inadequate, a separate sheet of paper may be used and signed by the declarant.
payment) under the reference No to the account of	(The declaration shall be submitted, on or prior to March 31, $2022$ to
Commissioner-General of Inland Revenue.	the Commissioner-General of Inland Revenue)



**GUIDELINES ISSUED BY CG UNDER SEC. 5(2) OF THE ACT – 17.09.2021** 



## දේශීය ආදායම් දෙපාර්තමේන්තුව உள்நாட்டு இறைவரித் திணைக்களம் INLAND REVENUE DEPARTMENT

ලේකම් දශයය 14 වන මහල දේශීය දාදායම් තොඩනැගිල්ල ශ්රීමත් විත්තම්පලම් ඒ ගාඩිනර් මාවත තැ.පෙ. 515, කොළඹ 2- ශ්රී ලංකාව செயலகம் 14 வது மாடி உன்தாட்டு இறைவரிக் கட்டிடம் சேர் சுற்றம்பலம் ஏ காடினர் மாவத்தை த.பெ.இல. 515, கொழும்பு - 2, இலங்கை

Secretariat
14th Floor
Inland Revenue Building
Sir Chittampalam A Gardiner Mawatha
P.O. 515, Colombo 2 - Sri Lanka

<sub>පැක්ස්</sub> *ப*ස්ටේ Fax

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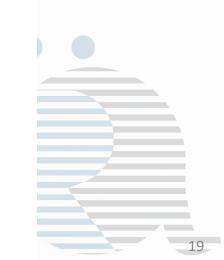
011-2135300/2135410/2135412/ 2135413 E-Mail – secretariat@ird.gov.lk Web: www.ird.gov.lk

My No: SEC/2021/06

September 17, 2021

## GUIDELINES ON THE MANNER OF PAYMENT AND FILING THE DECLARATION, FOR A PERSON WHO PAYS TAX ON VOLUNTARY DISCLOSURE SEEKING IMMUNITY UNDER SECTION 6 OF THE FINANCE ACT, NO 18 OF 2021

In terms of Subsection (2) of Section 5 of Finance Act, No 18 of 2021 (hereinafter referred to as the "Finance Act"), following guidelines are issued on specifying the manner of payment of Tax on Voluntary Disclosure and for the filing of declaration, by a person who pays Tax on Voluntary Disclosure seeking immunity under Section 6 of the Finance Act (hereinafter referred to as "declarant"). Such person is also advised to refer to the Explanatory Note for Tax on Voluntary Disclosure issued under the reference No. SEC/2021/07 on September 17, 2021, for further information.





**GUIDELINES ISSUED BY CG UNDER SEC. 5(2) OF THE ACT – 17.09.2021** 

## 1. PAYMENT OF TAX

- (a) A declarant, who already has a Taxpayer Identification Number (TIN) issued by the Inland Revenue Department (IRD), can use the same TIN for payment of Tax on Voluntary Disclosure.
- (b) A declarant who has not previously obtained a TIN shall obtain a TIN from the IRD to make the payment of Tax on Voluntary Disclosure.

TIN could be obtained using either of following methods:

- By applying via e-Service through IRD web portal e-Services / Access to e-Services /Taxpayer Registration
- (ii) By submitting a duly filled "Application Form for Taxpayer Registration" to the Primary Registration Unit of the IRD Head Office located at Sir Chittampalam A. Gardiner Mawatha, Colombo 02, or to any Metropolitan or Regional office of the IRD.

The Application Form could be either downloaded from the IRD web portal via: <a href="Downloads/Forms">Downloads/Forms</a> and Returns/Taxpayer Registration or obtained from the above said offices.

### In the Application Form:

- If the declarant wishes to declare source, he may choose relevant source accordingly and otherwise, he may choose the option "Other".
- Individual declarants are not required to register for "tax type registration" (income tax or other taxes) unless the declarants are liable to register for such tax types under such tax Acts (Section 102 of Inland Revenue Act, No. 24 of 2017 or Section 10 of Value Added Tax Act, No. 14 of 2002).
- (c) Declarants are advised to pay the Tax on Voluntary Disclosure in the following manner;
  - (i) The declarant can use the formal tax paying-in-slip of the IRD to pay the tax. Paying-in-slips could be collected from any branch of the Bank of Ceylon or from the Customer Supporting and Promotion Unit of the IRD Head Office, any Metropolitan or Regional Office of the IRD.
  - (ii) For the payment of Tax, the payment slip shall be filled as follows:-
    - Tax type code 28
    - Payment period code 22000
    - Payment category S
    - Payment voucher code not required to fill
    - Fill other details of the paying in slip
  - (iii) Pay the tax to the Bank of Ceylon Branch located at IRD Head Office or to any other branch available islandwide.
  - (iv) When paying the Tax for amounts to be declared in a currency other than Sri Lankan Rupees, the Tax shall be paid at the rate of one per centum of the equivalent amount in Sri Lankan Rupees calculated according to the exchange rate on the date of the payment of Tax.



**GUIDELINES ISSUED BY CG UNDER SEC. 5(2) OF THE ACT – 17.09.2021** 

(v) Amount payable as Tax shall be calculated at the rate of one per centum of the total amount /market value declared under the table of the paragraph 2 of the Declaration form.

### 2. FILING OF DECLARATION

- (a) The Declaration shall be made in the relevant specified form which could be downloaded from the IRD web portal via: <u>Downloads/Forms and Returns/Tax on</u> <u>Voluntary Disclosure (TVD)</u>. TIN should be mentioned as the payment reference number in paragraph 4 of the Declaration.
- (b) Declarants are required to attach following documents to the duly filled Declaration form.
  - · Photostat copy of paying-in slip
  - Certified copy of National Identity Card/Passport
  - If the declarant intends to collect the acceptance of the declaration issued under Subsection (3) (b) or rejection of declaration under Subsection (3)(c) of the Section 5 of the Finance Act by registered post to another address which was not mentioned in the declaration, a request letter with such details.

- Authentic documents to prove the ownership, date of acquisition and cost or market value of the asset declared in the declaration (e.g.: copies of documents such as deeds, bills or invoices, deposit certificates, share certificates, confirmations issued by the relevant banks, financial or other institutions, confirmations issued by the relevant debtor, confirmations of auditor (approved by the Commissioner General for Income tax purposes), valuations for insurance purposes, valuation reports issued by a qualified valuer, valuation reports issued by the Government Institutions or independent bodies).
- (c) Duly filled Declaration with attachments shall be addressed to the Commissioner General and forwarded to the Commissioner, Tax Policy and Legislation Unit, 14<sup>th</sup> Floor, Inland Revenue Department, Sir Chittampalam A Gardiner Mawatha, Colombo-02 as reachable on or before March 31, 2022, by registered post or delivery by hand in a sealed envelope.

4-

H. M. W. C. Bandara Commissioner General of Inland Revenue

H. M. W. C. Bandara Commissioner General Inland Revenue Department Sir Chittampalam A. Gardiner Mw Colombo 02

Copies to

- 1. Secretary to the Ministry of Finance
- 2. Attorney General, Attorney General's Department
- 3. Auditor General, Auditor General's Department





## දේශීය ආදායම් දෙපාර්තමේන්තුව உள்நாட்டு இறைவரித் திணைக்களம் INLAND REVENUE DEPARTMENT

ලේකම් අංශය 14 වන මහල දේශීය ආදායම් ගොඩනෑගිල්ල ශුීමත් චිත්තම්පලම් ඒ ගාඩිනර් මාවත තැපෙ. 515, කොළඹ 2- ශී ලංකාව செயலகம்
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My No: SEC/2021/07

September 17, 2021

## FINANCE ACT, No. 18 of 2021 (PART I) EXPLANATORY NOTE FOR IMPOSING TAX ON VOLUNTARY DISCLOSURE

In terms of the provisions of the Finance Act, No. 18 of 2021 (hereinafter referred to as the "Finance Act"), any person may make a declaration (hereinafter referred to as the "Declarant") to the Commissioner General of Inland Revenue (CGIR) in respect of his undisclosed taxable supply, income or asset which was required to be disclosed under the provisions of the Value Added Tax Act No. 14 of 2002 (VAT Act), or any of the Inland Revenue Acts (the Act No. 24 of 2017, Act No. 10 of 2006, Act No. 38 of 2000 or Act No, 28 of 1979); as the case may be; for any period or year of assessment ended on or prior to March 31, 2020. Such declaration is required to be made in the specified form on or before March 31, 2022, as set out below.



#### 1. IMPOSITION

A tax called "Tax on Voluntary Disclosure" is imposed at 1% on those who opts to make a declaration seeking immunity under section 6 of the Finance Act.

#### 2. APPLICABLE PERSONS

This tax is applicable for any person who seeks immunity under Section 6 of the Finance Act, and who -

- (a) has not declared any amount of taxable supplies which is required to be declared in a Value Added Tax (hereinafter referred to as the "VAT") return furnished for any taxable period ended on or prior to March 31, 2020; or
- (b) has not declared any amount of income or asset which is required to be declared in a return of income furnished for the any year of assessment ended on or prior to March 31,2020.

Such person may have not registered for VAT or income tax, or have not furnished respective returns; as the case may be. However, any person who has collected VAT on the supply of goods or services from customers is not entitled for the immunity on such VAT collected amounts.

The applicable persons may include:

- Resident individuals;
- Non-resident individuals (whether citizens of Sri Lanka or not);
- Resident companies;
- Non-resident companies carrying on business in Sri Lanka;
- Partnerships;
- Trusts or trustees;
- Unit trusts and mutual funds;
- Clubs or societies;
- Funds;
- Non-governmental organizations;
- Charitable institutions;
- Other body of persons.

#### 3. EXCLUDED PERSONS AND AMOUNTS

- 3.1 Following Persons are excluded and therefore, are not entitled for the immunity granted under Section 6 of the Finance Act.
  - (a) any person in relation to whom investigations or legal proceedings are pending on any undisclosed taxable supply, income or asset; or
  - (b) any person who has been convicted of an offence in relation to any undisclosed taxable supply, income or asset;

under the provisions of-

- Prevention of Money Laundering Act, No. 5 of 2006,
- (ii) Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005,
- (iii) Bribery Act (Chapter 26),
- (vi) Conventions against Illicit Traffic in Narcotic Drugs and Psychotropic Substances Act, No. 1 of 2008.
- 3.2 Any amount of undisclosed taxable supply, income or asset held by any person for which assessments have been made under any of the Inland Revenue Acts, VAT Act, Betting and Gaming Levy Act, No. 40 of 1988, Finance Act, No. 11 of 2002, Stamp Duty Act, No. 43 of 1982 or Stamp Duty (Special Provisions) Act, No. 12 of 2006 is also excluded and therefore, is not entitled for the immunity granted under Section 6 of the Finance Act.

### 4. AMOUNTS TO BE DECLARED

Any amount of undisclosed taxable supply which has not been declared in a VAT Return for any taxable period ended on or prior to March 31, 2020, or income or asset which has not been declared in a return of income for any year of assessment ended on or prior to March 31, 2020 are the amounts qualified to be declared.

In case where a person has collected VAT on the undisclosed taxable supplies made, such person may declare such undisclosed taxable supplies, together with any undisclosed income, or asset, but immunity is granted only on the undisclosed income or asset.



## 5. APPROVED INVESTMENTS

## 5.1 Undisclosed Taxable Supply or Income Held as Money

In terms of section 3 of the Finance Act, any person who seeks the immunity, shall be required to invest the amounts of undisclosed taxable supply, income or asset (money) prior to March 31st 2022 in,

- (a) shares issued by a resident company;
- (b)treasury bills or treasury bonds issued by the Central Bank on behalf of the Government of Sri Lanka;
- (c) any quoted debt securities issued by a resident company in Sri Lanka; or
- (d)any movable or immovable property in Sri Lanka.

If not, such person may deposit the same amount in a bank account in Sri Lanka prior to March 31, 2022. Further, money held in any foreign currency in or outside Sri Lanka may also be deposited in a bank account in Sri Lanka prior to the declaration.

It is a choice of any Declarant to deposit such foreign currency either in Sri Lankan rupee or in foreign currency, subject to the regulations of the Central Bank of Sri Lanka (CBSL).

Declarants are allowed to submit their declarations, after the above investments or deposits are made.

## 5.2 Undisclosed Taxable Supply or Income Invested in Asset

If any person has invested his amount of undisclosed taxable supply, income or asset prior to September 15, 2021, in,

- (a) shares issued by a resident company;
- (b) treasury bills or treasury bonds issued by the CBSL on behalf of the Government of Sri Lanka;
- (c) any quoted debt securities issued by a resident company in Sri Lanka;
- (d) any movable or immovable property in or outside Sri Lanka; or
- (e) a bank in Sri Lanka as a deposit (in any account maintained in LKR or foreign currency)

Such person is also allowed to make a Declaration under the Finance Act and above investments or deposits could be declared in the Declaration.

### 6. INTERPREATIONS

"Asset" means "money or any immovable or movable property, including bank balances, financial instruments, shares, derivatives, treasury bills, fixed deposits, time deposits, bonds or other forms of deposits, money given by way of security or loans, cash, gem or gold in hand, any other monetary right but excluding any intangible asset unless such intangible asset unless such intangible asset has been purchased by the taxpayer (*Declarant*) from any other person."

"Immovable property" includes any building in Sri Lanka or abroad whether constructed or under construction.



"Movable property" includes all forms of movable property in Sri Lanka or abroad including gold but does not include money.

Accordingly, trading stocks, trade debtors, loans or other receivable amounts, gems, jewelleries, vehicles, house-hold equipment, machineries and computer equipment are also considered as movable properties and as assets. Money is considered as an asset, but not as a movable property. A confirmation from an approved auditor for a trading stock, confirmation from relevant debtor for trade debtors or receivable amounts, and certification or valuation issued by the National Gem and Jewellery Authority for gems, could be submitted to prove the cost or market value of such assets as the case may be.

If there is any undisclosed asset acquired through a finance lease facility, all lease payments (including any down payment) made as at March 31, 2020 on such finance lease agreement could be declared with a copy of lease agreement and payment confirmation from the lessor.

### 7. CALCULATION OF TAX

As per section 4 of the Finance Act, a person who seeks the immunity, shall pay 1% of tax called "Tax on Voluntary Disclosure" calculated as follows;

- (a) If the declarant intends to disclose, undisclosed taxable supply, income or asset (Money), then the 1% of tax shall be calculated on such amount invested, or the money deposited.
- **(b)** If the declarant intends to disclose, any immovable or movable property already invested, then the 1% of tax shall be calculated on the **market value** of such property on the date (or the closer date) of the declaration.

In circumstances, where the money is in foreign currency or the asset is held outside Sri Lanka, valuation should be obtained as follows;

- Confirmation of the amount or the valuation of the asset should be obtained in foreign currency from the relevant bank or relevant authority
- Such value should be translated into Sri Lanka Rupees at the buying rate using the exchange rate published by the CBSL at the date of declaration.

The tax paid as above is not a tax credit or an expenditure within the meaning of the Inland Revenue Act, No. 24 of 2017 (IR Act) and not refundable under any circumstances.

## 8. SUBMISSION OF DECLARATION

Person who has invested or deposited any undisclosed taxable supply, income or asset as specified in section 3 of the Finance Act and has paid Tax on Voluntary Disclosure are the persons who are entitled to submit a declaration under Section 5 of the Finance Act.

Accordingly, a declaration should be submitted in an applicable form specified in the Finance Act after paying the Tax on Voluntary Disclosure on or prior to March 31, 2022. This form could be downloaded from the IRD web-portal via: <a href="Downloads/Forms and Returns/Tax on Voluntary Disclosure">Downloads/Forms and Returns/Tax on Voluntary Disclosure</a> (TVD)

Declarants are required to refer to the "Guideline on the manner of payment and filing the declaration for person who pays Tax on Voluntary Disclosure seeking immunity under Section 6 of the Finance Act, No. 18 of 2021" issued under the reference No. SEC/2021/06 dated September 17, 2021.



### 9. ACCEPTANCE OF DECLARATION

The declaration, if it is in accordance with the provisions of the Finance Act, is accepted and such acceptance is informed to the declarant within 30 days of the receipt of the declaration.

If the declaration is not in accordance with the provisions of the Finance Act, such declaration is rejected with reasons, and the same will be notified by registered post within 30 days of the receipt of such declaration.

The declaration will be rejected in the following circumstances;

- (a) The declarant has failed to meet the investment or deposit requirements
- (b) The Tax on Voluntary Disclosure has not been paid
- (c) The declaration is not in the applicable specified form
- (d) The declarant has not met respective due dates
- (e) The assessments have been already issued by the IRD in relation to the amount of undisclosed taxable supply, income or asset
- (f) Any other reason communicated by the CGIR

However, a fresh declaration could be submitted in lieu of the rejected declaration within 30 days of the receipt of the rejection letter, if the defects mentioned in the rejection letter can be remedied. Having verified the defect, the fresh declaration will be accepted.

If the acceptance of the declaration or the rejection of the declaration has not been communicated within 30 days, it is deemed that the declaration has been accepted by the CGIR.

All declarations with attachments are kept in the safe custody under the Commissioner General's supervision.

### 10. SECRECY ON THE INFORMATION PROVIDED IN THE DECLARATION

In line with Section 7 of the Finance Act, the CGIR or any officer of the Inland Revenue Department shall preserve and aid in preserving official secrecy in respect of the identity of a declarant and any matter contained in the declaration.

Further, rules designed to preserve the taxpayer-privacy under the provisions of Section 100 of the IR Act, together with punishments provided on the breach of such secrecy shall apply for this Act as well.

### 11. IMMUNITY FOR DECLARANTS

Any person whose declaration has been accepted or is deemed to have been accepted by the CGIR shall be entitled to enjoy the full immunity from liability to pay any tax, penalty or interest or from any investigation or prosecution,

- in relation to any year of assessment ended on or prior to March 31, 2020 and in relation to the income or asset disclosed in the declaration under the provisions of Inland Revenue Acts;
- in relation to any period ending on or prior to March 31, 2020 and in relation to
  the amount of taxable supplies disclosed in the declaration under the provisions of
  the VAT Act. However, if the declarant has collected VAT on the undisclosed
  taxable supplies or part thereof, immunity is not granted in relation such
  undisclosed taxable supply.

In any case where the CGIR finds that the declarant has provided false or incorrect information in the declaration made, the immunity granted as above shall be withdrawn, even though the declaration has been acknowledged or is deemed to have been acknowledged by the CGIR. The provision of the relevant laws shall be applicable in such cases.

Immunity shall not be granted for any year of assessment or period commencing on or after April 1st 2020.



### 12. ADJUSTMENTS FOR FINANCIAL STATEMENTS AND RECORDS

A declarant who is entitled for the full immunity should account his/entity's undeclared business assets or other assets in the relevant balance sheet as at March 31, 2021 (if the acceptance of the declaration has been received prior to September 30, 2021), or March 31, 2022 (for other cases).

The corresponding adjustment of the undeclared asset could be credited to the retained earnings of the balance sheet of the respective year (2020/2021 or 2021/2022). However, corresponding adjustments, if any, to **reduce any liability** account is not permitted. In case where the \undeclared asset was financed through an undeclared loan, then, net amount [Amount (cost) debited to the asset account – Amount credited to the retained earnings] can be credited to a liability account (such loan) by increasing the same.

An individual declarant who is not required to prepare a balance sheet is allowed to declare undisclosed personal assets for which the immunity have been granted, under the "Statement of Assets and Liabilities" which would be submitted with the return of income for the year of assessment ending on March 31st, 2021 (if the acceptance of the declaration has been received prior to September 30, 2021), or March 31, 2022 (for other cases).

Provisions of the IR Act or the VAT Act; as the case may; are applicable in respect of the declared assets in the declaration for any period or year of assessment on or after 01.04.2020.

### 13. FURTHER CLARIFICATIONS

For further clarifications, if any, you may send email via: tpl@ird.gov.lk or contact any of following officers via following telephone Nos.

Deputy Commissioner General (Tax Policy, Legislation & International Affairs) - 0112135300
Senior Commissioner (Secretariat) - 0112135410
Commissioner (Tax Policy & Legislation) - 0112135412

Senior Deputy Commissioners (Tax Policy & Legislation)

-0112135433/438/434/441/435/432

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H. M. W. C. Bandara Commissioner General of Inland Revenue

H. M. W. C. Bandara Commissioner General Inland Revenue Department Sir Chittampalam A. Gardiner Mw Colombo 02

## FOR FURTHER CLARIFICATIONS PLEASE COMMUNICATE

**WITH US ......** 





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