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HIGHLIGHTS OF INLAND REVENUE (AMENDMENT) ACT NO. 10 OF 2021

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Presented by;

Athula Ranaweera

[B.Sc (Busi. Admin) Spe, FCA, FCMA, FMAAT]

athula@ranaweeraasso.lk

INLAND REVENUE (AMENDMENT) ACT

Introduction



- ❖ **Bill issued on 18.03.2021**
- ❖ **Supreme Court Determination** given on 07.04.2021
- ❖ Incorporated the **Committee Level Amendments** to the Bill
- ❖ **Act passed** in the Parliament on 04.05.2021
- ❖ **Certified as Inland Revenue (Amendment) Act No. 10 of 2021** on 13.05.2021



INLAND REVENUE (AMENDMENT) ACT



Discussion Order of the Amendments (Index)

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INLAND REVENUE (AMENDMENT) ACT



1. WHT (PAYE/APIT) - On Remuneration

**(i) Remuneration of Resident / Non-resident / SL Non- citizen Employees;
(Sec. 83 & 83A)**

PERIOD	WHT (Pay As You Earn/Advance Personnel Income Tax) LIABILITY	
	Resident/SL Citizen	Non-resident/Non-citizen
01.04.2018 – 31.12.2019	Liable to PAYE	Liable to PAYE
01.01.2020 – 31.03.2020	Not Liable	Not Liable
01.04.2020 Onwards	Liable to APIT on Voluntary basis	Liable to APIT on Mandatory basis

(ii) Employee Terminal Benefits (Sec. 84 & 84A);

WHT liability on terminal benefits of all employees is removed w.e.f. 01st January 2020.



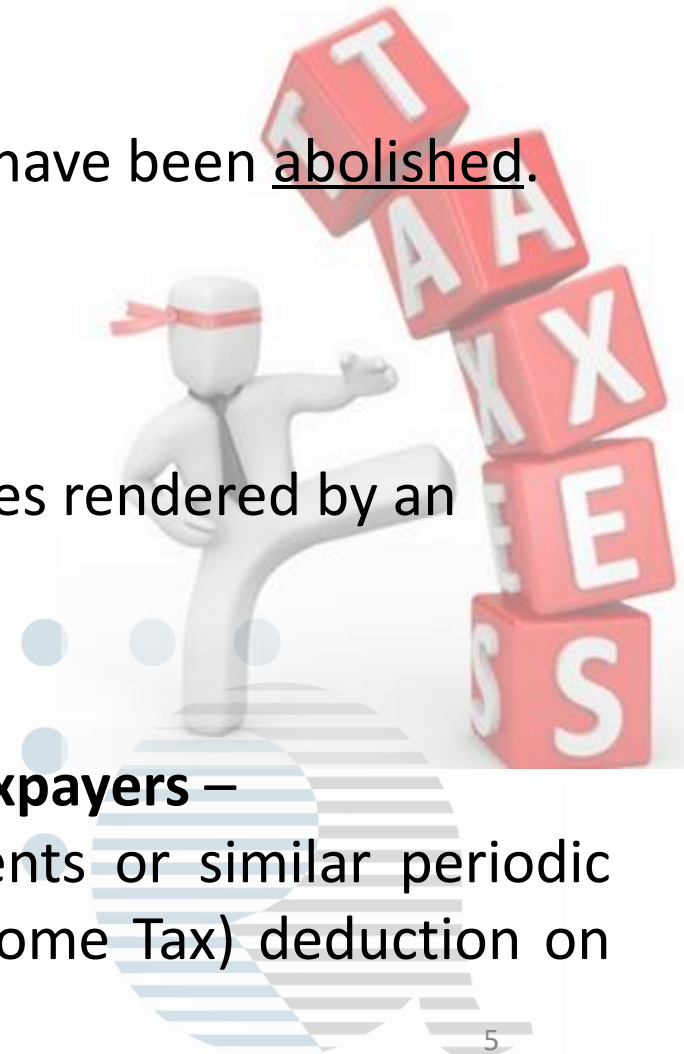
INLAND REVENUE (AMENDMENT) ACT



1. WHT - On Other Payments (Non-Remuneration) (Contd..)

(i) Payment to Residents;

- W.e.f. 01st January 2020, WHT on following payments to residents have been abolished.
 - (a) Dividends
 - (b) Interest
 - (c) Discount
 - (d) Charge
 - (e) Rent
 - (f) Royalty
 - (g) Natural resource payment
 - (h) Premium or retirement payment
 - (i) On the service fee paid on services rendered by an individual.
- **Introduction of optional Advance Income Tax (AIT) on Resident Taxpayers –**
W.e.f. 01.04.2020, **resident taxpayer** who receives above payments or similar periodic payments may make requests to the agents for **AIT** (Advance Income Tax) deduction on such payments. [Sec. 84A]



INLAND REVENUE (AMENDMENT) ACT



1. WHT - On Other Payments (Non-Remuneration) (Contd..)

Payment to Residents (Contd.)

- Following Payments to any person continued to be liable to WHT;



Source of Income (Payment)	WHT %
Winnings from a lottery, reward, betting or gambling	14%
Gems sold by any person in a NGJA auction	2.5%

- **WHT on Partnerships' allocations;**

The **8% WHT** on any partner's relevant share of partnership income (allocation) is **abolished** w.e.f. 01.01.2020 & introduced income tax on partnerships (@ 6%).



INLAND REVENUE (AMENDMENT) ACT



1. WHT - On Other Payments (Non-Remuneration) (Contd..)

(ii) Payments to Non- residents;

Source of Income (Payment)	WHT %	WHT Deductible/No
(a) (i) Interest on any Loan given to any person/SL Govt, CBSL approved foreign currency bank deposit, special deposit account in Rs./FC* (ii) Interest <u>other than the above</u> & discounts	5%	No [Exempted – 3rd Schedule item (i)(ii)]
	5%	Liable
(b) Dividends, charge, natural resource payment, rent, royalty, premium, service fee or an insurance premium.*	14%	No [Exempted– 3rd Schedule item (oo)(ii)]
(c) Gems sold by any person in a NGJA auction	2.5%	Liable
(d) Services fee (land, sea, air transport or telecommunication)	2%	Liable
(e) Profit share allocated by a partnership to a partner	N/A	No (Abolished)

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

- When the interest on any loan made exempted, the rationality of taxing the interest on some rupee deposits is not clear!*
- The **8% WHT** on any partner's share of partnership income (allocation) is **abolished** w.e.f. 01.01.2020.*

INLAND REVENUE (AMENDMENT) ACT

2. Allowable & Disallowable Deductions (Sec. 11 & 10)

2.1. General Rule of 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 which includes 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 are summarised below;

2.2 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 employment income as it is excluded under Sec. 5(3)(f)].

INLAND REVENUE (AMENDMENT) ACT

2. Allowable & Disallowable Deductions (Sec. 11 & 10)

2.3 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 it is allowed under Sec.11].

2.4 Repair and Improvement – Sec. 14

W.e.f. 01.04.2021 the maximum limitation of claiming (5% of WDV of depreciable buildings & 20% of WDV of others) of expenses is applicable only on cost of improvements. *(Repair expenses are relaxed)*

2.5 200% 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 some conditions.

2.6 200% Deduction for Research and Development Expenses Extended by 2 Years

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

INLAND REVENUE (AMENDMENT) ACT

2. Allowable & Disallowable Deductions (Sec. 11 & 10)

2.7 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.

(This limitation is not applicable for the companies not having share capital)

2.8 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).

2.9 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)

2.10 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).

INLAND REVENUE (AMENDMENT) ACT



3. Income Tax Exemptions – (Business Incomes)

3.1. Under Strategic Development Project Act (SDPA)

- IR Act is amended to accommodate tax exemptions for Projects (by companies) under Strategic Development Project Act No. 14 of 2008 by superseding the IR Act. [**Sec.9(3)-IR Act**]
- *SDPA is reactivated after several years.*

3.2. Under IR Act

3.2.1 Gain on realization of land or building which was sold to REIT- [3rd Sch.(hh)] -

- 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.

INLAND REVENUE (AMENDMENT) ACT



3. Income Tax Exemptions – (Business Incomes)

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

3.2.3 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 profit attributable to agro farming produce. As per the amendments to the 1st Schedule to the Act, **25%** of the profit attributable to process/manufacture is **exempted**, while the balance is liable @ 14%] 🤔 🤔

(Note that the “agro farming” and “agro processing” definitions are not comprehensive enough & questionable. Refer slide No. 37, 38 & 39 for the interpretations)

- (ii) providing IT and enabled services, as may be prescribed* by CG. (w.e.f. 01.01.2020). **(Gazette No. 2234/6)*
- (iii) any **service rendered** in/outside SL to any person 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. 🤔 🤔

INLAND REVENUE (AMENDMENT) ACT

3. Income Tax Exemptions – (Business Incomes)

- (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 programs** 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 (1st year) compared to immediately preceding Y/A; (if doubled intake in the 1st year maintains for next 4 years it qualifies) 🤔 🤔
 - (b) for a period of 5 years from 01.04.2021.
- (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.

INLAND REVENUE (AMENDMENT) ACT



3. Income Tax Exemptions – (Business Incomes)

3.2.4 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).

3.2.5 Gains and profits received or derived from business (*other than any gains from capital assets and liabilities*) by a person from following any **new undertaking commenced on or after 01.04. 2021,** (*not by splitting or re-constructing*) subject to the conditions contained herein; [3rd Sch.(w)]

- (i) an undertaking involved in **sale of construction materials recycled by itself**, is exempted for a period of 10 years. If such recycled materials used for it's construction service supplies, the market value of such materials to be applied to compute the exempted gain (*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** (TVET concept) is exempted for a period of 5 years. 🤔 🤔

INLAND REVENUE (AMENDMENT) ACT



3. Income Tax Exemptions – (Business Incomes)

- (iii) The profit of a boat & ship manufacturing undertaking by a resident person, for 7 years.
- (iv) Any solar or wind power (renewable energy) project not less than 100 MW supplying to national grid, for 7 years. (*Applicable to any person, as it is not specified*)
- (v) An undertaking commenced on or after **01.01.2021** for **constructs and installs communication towers and related appliances and provides required technical services** for such construction or installation by any resident person, for 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 Hambanthota Ports if such person has invested on such undertaking on or after 01.04.2021. (*Applicable to any person and exempted forever.*)

INLAND REVENUE (AMENDMENT) ACT



3. Income Tax Exemptions – (Business Incomes)

3.2.6 A Summary of the Tax Holidays on Businesses explained above; [3rd Schedule(w)]

Industry	Effective date	Exempt period
Strategic Development Projects (SDP) [Sec.9(3)-IR Act]	As approved	As approved
Realization 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

INLAND REVENUE (AMENDMENT) ACT



3. Income Tax Exemptions – (Business Incomes)

3.2.6 Summary of the Tax Holidays on Businesses explained above; [3rd Sch.(w)]

(Contd.)

Industry	Effective date	Exempt period
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.

INLAND REVENUE (AMENDMENT) ACT




3. Income Tax Exemptions – (Dividends)

3.2.7 A dividend paid by a resident company [3rd Schedule (oo)] -

- (i) To a member out of dividend received, (w.e.f. 01.04.2018) *(As per original Act) (To any member)*
- (ii) To a non-resident member*, (w.e.f. 01.01.2020) *(No categorization of the profit)*
- (iii) BOI entity engaged in any one or more of following businesses in accordance with the provisions of the Finance Act No. 12 of 2012, (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:-1. Each of the item (i), (ii) & (iii) given above are **independent**.

2. A **resident person** is exempted on dividend income only [if it covered under (i) or (iii) above]

3. * By **exempting the non-residents of a DTA country**, SL is sacrificing its income which is to be collected in the **sourcing country** and allowing the related other country's Government to enjoy the tax income. 

INLAND REVENUE (AMENDMENT) ACT



3. Income Tax Exemptions (Dividends)

3.2.8 Dividends from and gains on the realization of shares in a non-resident company which is derived by any person having 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 Schedule (r)]** *(Original Act with a modification)*

3.2.9 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. **[3rd Schedule (rr)]**

[By referring item (hh) of 3rd Schedule, it is assumed that it is effective from 01.04.2021]



INLAND REVENUE (AMENDMENT) ACT



3. Income Tax Exemptions – (Interest)

3.2.10 Interest Earned by [3rd Schedule (i)] -

- **any 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.

***Note:-** *In the case of a non-resident person, when the interest on any loan and on some deposits made exempted, the rationality of other interest (on some rupee deposits) made liable is not clear!!!*

INLAND REVENUE (AMENDMENT) ACT



3. Income Tax Exemptions – (Interest)

- 3.2.11 Any interest, discount or realization gain earned by a non-resident person on any Sovereign Bond denominated in any currency (w.e.f. 01.04.2018) [3rd Sch. (I)]**
- 3.2.12 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)***
- 3.2.13 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)]**
- 3.2.14 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.**
- 3.2.15 Any sum received by; (on or after 01.04.2018)[3rd Sch. (k)]**
- any person from The President's Fund or The National Defense 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.

INLAND REVENUE (AMENDMENT) ACT

3. Income Tax Exemptions



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 2.6 (iii) 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.



INLAND REVENUE (AMENDMENT) ACT

4. Post Covid-19 Economic Recovery Special Tax Reliefs



4.1. Post Covid-19 Economic Recovery Special Tax Reliefs [Amendment Act Sec. 58]

- (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 IR 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.

INLAND REVENUE (AMENDMENT) ACT

4. Post Covid-19 Economic Recovery Special Tax Reliefs



Post Covid-19 Economic Recovery Special Tax Reliefs [Amendment Act Sec. 58] (Contd.)

- (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.

- (i) **Personal relief** of Rs. 500,000 for the residents or non-resident but citizens for each year of assessment has been **increased to Rs. 3 mn** w.e.f. 01.01.2020. This personal relief is not entitled to deduct against the gains on realization of investment assets.
- (ii) **Employment allowance relief** of Rs. 700,000 is **abolished**. (W.e.f. 01.01.2020),
- (iii) **Senior citizen's interest income relief** of Rs. 1.5mn 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.



INLAND REVENUE (AMENDMENT) ACT

5. Reliefs & Qualifying Payments



5.1 Reliefs (5th Schedule) – (Contd.)

- (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 (own),
 - **Educational** expenditure incurred locally (own education of children's' education),
 - **Interest** on housing loans,
 - Contribution to an approved **pension scheme**,
 - Expenditure on **purchase of listed shares/financial instruments**.
- (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.

INLAND REVENUE (AMENDMENT) ACT

5. Reliefs & Qualifying Payments



5.2. 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 promotion of the film) \geq Rs. 5 mn,
 - in the **construction and equipping of a new cinema** at a cost \leq Rs. 25 mn,
 - in the **upgrading of a cinema** at a cost \leq 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.

INLAND REVENUE (AMENDMENT) ACT

5. Reliefs & Qualifying Payments



- (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)].

INLAND REVENUE (AMENDMENT) ACT

6. Application of Amendments & Effects There on - Individuals



6.1. Individuals

(i) Interest and Dividends

- No more WHT on interest income & dividends.
- No more tax relief on Senior citizens interest income.

(ii) Employment Income (Remuneration)

- No more WHT (PAYE) on remuneration.
- No more employment allowance (relief of Rs. 700,000 p.a.)
- Tax concession on Com. Pension, Gratuity, EPF or Approved Compensation.

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

- New “relief” on certain expenditure up to Rs.1.2mn (w.e.f. 01.01.2020)
- Personal tax-free allowance (relief) increased to Rs. 3mn (w.e.f. 01.01.2020).



INLAND REVENUE (AMENDMENT) ACT

6. Application of Amendments & Effects There on - Individuals (Contd.)

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

Taxable Non-terminal Benefit Income		Taxable Terminal Benefits (Approved/Regulated)	
Taxable Income	Tax Rate	Taxable Income	Tax Rate
1st Rs. 3,000,000	6%	First Rs. 10 million	0%
2nd Rs. 3,000,000	12%	Next Rs. 10 million	6%
On the balance	18%	Balance	12%

- 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**.
- The individual's gains and profits in respect of gems & jewellery and supply of electricity (generated by using renewable energy resources) to be taxed **@ 14% max**.

REMARK:- With the current situation all individuals having monthly 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).

INLAND REVENUE (AMENDMENT) ACT



7. Application of Amendments & Effects There on - Partnerships

7.1. Partnerships

- W.e.f. 01.01.2020, WHT of 8% on any partners share of partnership profit (allocation) is abolished.
- 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 (up to) Rs. 1,000,000	0%
- Do -	Exceeding Rs. 1,000,000	(Only on excess) 6%

INLAND REVENUE (AMENDMENT) ACT

8. Application of Amendments & Effects There on - Trusts



8.1. Trusts

- With effect from 01.01.2020, the tax rate applicable for Trusts;
reduced from 24% to **18%**.



INLAND REVENUE (AMENDMENT) ACT

9. Application of Amendments & Effects There on - Companies



9.1. Companies Applicable Tax Rates w.e.f. 01.01.2020:

Tax Rate	Description & Applicable Section
14%	Business Gain & Profit of a SME as defined in Sec. 195. *1 [Except betting, gaming and sale of liquor (<i>in the case of liquor, other than it is merely incidental to another business</i>)]
14%	Business of sale of goods or merchandise including export of goods, where the <u>proceeds in foreign currency is remitted through a bank to SL.</u> *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 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 Air force, SL Police and COVID Center. *1
14%	Gains and profits from consideration received in respect of gems and jewellery.

INLAND REVENUE (AMENDMENT) ACT

9. Application of Amendments & Effects There on - Companies (Contd.)

9.1 Applicable Tax Rates w.e.f. 01.01.2020 (Contd.):

Tax Rate	Description & Applicable Section
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%	Gain and profit from supply of electricity generated by using renewable energy resources to national grid.
18%	Manufacturing (Six types of manufacturing business marked with ^{*1} are not covered with this).
40%	Conducting Betting & Gaming
40%	Manufacture & sale or import & sale of any Liquor or Tobacco product ^{*1} .
10%	Capital Gains (Since 01.04.2018 @ 10%)
24%	On any other taxable income of a company.

INLAND REVENUE (AMENDMENT) ACT

9. Application of Amendments & Effects There on – Companies (Contd.)



9.2 Special Tax Rebates for Companies :-

Following **new tax rebates** are introduced w.e.f. 01.04.2021

- (i) **50% rebate** on IT payable on aggregate non-capital gain for the Y/A 2021/22 (including IT computed as per BOI agreements) by **any company which lists its shares in CSE** during 01.01.2021 to 31.12.2021 [Item 4 (5)(a) of 1st Schedule]
- (ii) Following income tax rebates on such part of income tax payable **on gains and profits from dividends by any multi-national company**; [Item 4 (5)(b) of 1st Schedule]
 - Y/A 2021/22 - **25% tax rebate**
 - Y/A 2022/23 and for 2023/24 - **50% tax rebate**

Conditions to be fulfilled by Companies, other than specified undertakings, to enjoy above 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, **25% of the tax** on profit attributable to such process/manufacture is to **be reduced**, while the balance is taxable (@ 14%) [Item 11 of 1st Schedule]

9.3 IT Rates:- Applicable different IT rates to be applied to applicable different sources of income. [Item 12]

**FOR FURTHER CLARIFICATIONS PLEASE
COMMUNICATE**



*Thank
you*



ATHULA RANAWEERA (BSc., FCA, FCMA, FMAAT)
Managing Partner: Ranaweera Associates (Chartered Accountants)
Managing Director - Assent Advisory Partners (Pvt) Ltd.
Assent Secretarial Consultants (Pvt) Ltd.

+94 777 305 123, athula@ranaweeraasso.lk athula@assentadvisory.lk



Annexure – Interpretations “agro farming”, “agro processing” & “Manufacturing”.

Exemption on Agro Farming [3rd Sch.(u)]....

Is it well covered?

“agro farming” means- (Sec. 195)

(a) *the tillage of the soil and cultivation of land with plants of any description, cultivation in green house, bee-keeping, rearing of fish, shrimp farming or animal husbandry, poultry farms, hatchery, veterinary or artificial insemination services;*

(b) *the cleaning, sizing, sorting, grading, cutting or chilling of any produce produced out of any activity referred to in paragraph (a) by any person who is engaged in any such activity, in preparation of such produce for the market but excludes the agro or food processing;*

“agro processing” means- (Sec. 195)

the processing of any locally produced agricultural, fishing, or animal product and includes an undertaking for the dehydrating, milling, packaging, canning for the purpose of changing the form, contour or physical appearance of such product in preparation for the market but excludes an undertaking of deep-sea fishing or manufacturing;”

Annexure - Interpretations “agro farming”, “agro



*“**manufacture**” means a change in a non-living physical object, article or thing-*

(a) resulting in transformation of such object, article or thing into a new and distinct object, article or thing having a different name, character or use; or

(b) (b) bringing into existence of a new and distinct object, article or thing with a different chemical composition or integral structure;”

(Sec. 195)



Annexure - Agricultural Undertaking Interpretation in the Old Act *(For a comparison)*

Sec. 16 of the Act No. 10 2006 (Agricultural Undertaking in the old Act)

16 (1) *The profits and income within the meaning of paragraph (a) of section 3, other than any profits and income from the disposal of any capital asset, of any person or partnership from any agricultural undertaking carried on in Sri Lanka, shall be exempt from income tax for each year of assessment within the period of five years, commencing on April 1, 2006.*

(2) *In this section “**agricultural undertaking**” means—*

- (a)** *an undertaking for the purpose of the production of any agricultural, horticultural or any dairy produce ;*
- (b)** *an undertaking for the cleaning, sizing, sorting, grading, chilling, dehydrating, packaging, cutting, canning for the purpose of changing the form, contour or physical appearance of any produce referred to in paragraph (a), in preparation of such produce for the market; **or***
- (c)** *any undertaking for the conversion of any produce referred to in paragraph (a) into such product as may be specified by the Commissioner-General, by Order published in the Gazette.*

Is the new Act covers all agro farming activities? Has the policy makers intention been documented?