

# **GUIDELINE FOR THE EMPLOYERS ON DEDUCTING WITHHOLDING TAX (PAYE) FROM THE EMPLOYMENT INCOME OF EMPLOYEES FOR THE PERIOD FROM JANUARY 01, 2020 TO MARCH 31, 2020, AS PER POLICY DECISION OF THE MINISTRY OF FINANCE**

This guideline has been prepared to provide instructions to the employers to deduct Withholding Tax (hereinafter referred to as “PAYE Tax”) regularly, under the PAYE Scheme, as instructed by the Ministry of Finance, subject to formal amendment to the Inland Revenue Act, No. 24 of 2017, to be passed in Parliament.

The guideline issued under the Inland Revenue Act, No. 24 of 2017 for the year of assessment 2018/2019, which is effective from April 01, 2018 is **valid till December 31, 2019.**

## **Withholding by Employers**

Every Employer is required to deduct income tax from the gains and profits from employment of each employee, liable to pay income tax at the time of such remuneration is paid or credited.

### **1. Employee**

An employee means any individual who receives remuneration in cash or kind for past, present or prospective employment performs by such individual, including public sector employee, a Director/Chairman of a Company or Corporation and a working partner of a partnership.

### **2. Profits from Employment Liable to Tax**

Tax liability arises on total remuneration received by an employee in any form as described below in cash or kind, for services performed or value of any benefit arises from prospective employment.

- Salary, wages, leave pay, overtime pay, fees, pensions, commissions, gratuities, bonuses, and other similar payments;
- Personal allowance, including any cost of living, subsistence, rent, entertainment or travel allowance;
- Payments providing discharge or reimbursement of expenses incurred by the employee or an associate of the employee;
- Payments for an individual's agreement to conditions of employment;
- Payments for redundancy or loss or termination of employment;
- Retirement contribution made to a retirement fund on behalf of the employee and retirement payment received in respect of the employment;
- Payments or transfers to another person for the benefit of the employee or an associate person of the employee;
- The fair market value of benefits received or derived by virtue of the employment by the employee or an associate person of the employee;
- Other payments, including gifts, received in respect of the employment;
- The market value of shares, at the time allotted, under an employee share scheme, including shares allotted as a result of the exercise of an option or right to acquire the shares, excluding the employee's contribution for such shares;

### 3. Excluded Profits from Employment

- Exempt amounts and final withholding payments;
- A discharge or reimbursement of expenses incurred by the individual on behalf of the employer;
- A discharge or reimbursement of an individual's dental, medical or health insurance expenses where the benefit is available to all full-time employees on equal terms;
- Payments made to or benefits accruing to employees on a non-discriminatory basis that, by reason of their size, type and frequency, are unreasonable or administratively impracticable for the employer to account for, or to allocate to the individual;
- The value of a right or option to acquire shares at the time such shares are granted to an employee under an employee share scheme;
- Contributions made by an employer to an employee's account with a pension, provident or savings fund approved by the Commissioner-General.

### 4. Exempt Profits from Employment

- Compensation or gratuity paid in lieu of personal injuries or death;
- Pension received from the Sri Lankan Government or from a Department of the Government;
- Amounts paid on retirement from any Provident Fund approved by the Commissioner General of Inland Revenue;
- Amounts paid on retirement from any Pension Fund or the Employees' Trust Fund, representing investment income earned for any period commencing on or after 1 April 1987;
- Income derived by an individual entitled to privileges under the Diplomatic Immunities Law and other specified conventions;
- Benefits derived by a Government employee, from a road vehicle permit granted to such employee.

### 5. Relief on Employment Income

- In arriving at taxable income from employment income for the period from January 01, 2020 to March 31, 2020 (hereinafter referred to as "the period"), **personal relief of Rs. 750,000/-** is available for a resident individual and a non-resident individual who is a citizen in Sri Lanka.
- Accordingly, any resident individual and non – resident individual who is a citizen in Sri Lanka, who receives in excess of Rs. 750,000/- or likely to receive in excess of Rs. 750,000/- for the period is liable to pay PAYE Tax from the employment income.

## 6. Tax Tables for Tax Deductions from Employment Income

Deduction of PAYE for the period should be made as set out below.

1. Where the payment made to any employee of whom made a declaration of primary employment, which constitutes: -
  - Monthly regular profits from the employment
  - lump-sum payments or
  - cumulative profits from the employment,

**Tax table “A” should be applied.**

2. Where the payment constitutes a Once – and- for - all payment (Terminal Benefits),  
**Tax table “B” should be applied.**
3. Where the payment made to a non – citizen and non-resident in Sri Lanka,  
**Tax table “C” should be applied.**
4. Where the payment by the employer constitutes a payment or reimbursement of tax liability of an employee on his income from employment,  
**Tax table “D” should be applied.**
5. Where the payment constitutes of the remuneration of any employee, who has not made a **declaration of primary employment**, or who has more than one employment,  
**Tax table “E” should be applied**

*Tax Tables are available in the Inland Revenue Department Web Portal [www.ird.gov.lk](http://www.ird.gov.lk)*

## 7. Primary Employment

- The primary employment of an employee for a year of assessment is the employment with respect to which the employee has provided an employer with a declaration for that year.
- A declaration must be signed and dated by the employee and the employer.
- An employee must not have more than one primary employment at any one time.

*Note: - Please use the specified form of Primary Employment Declaration in the Inland Revenue Department Web Portal [www.ird.gov.lk](http://www.ird.gov.lk)*

## 8. Secondary Employment

With respect to an employee, Secondary Employment means any employment that is not the primary employment of the employee.

## 9. Remittance of Tax Deducted

- i. Tax deducted from employment income from every employee during a particular month should be remitted to the Commissioner General of Inland Revenue on or before the 15<sup>th</sup> day of the month immediately succeeding that month.
- ii. Payments should be made to **any branch of Bank of Ceylon**, using specified remittance forms issued by the Inland Revenue Department.
- iii. Employers are required to read the instructions on the overleaf of the remittance form.
- iv. Employers should keep the third copy of the remittance form after making the payments.

## 10. Further Instruction and Information Regarding Deduction of Tax from Employment Income

**These instructions are meant to guide the employers to deduct amount of tax from employees. However, if there is any inconsistency between the provisions of the Inland Revenue Act and these instructions, the provisions of the Act shall apply.**

Further details, Tax Tables and the electronic version of the relevant forms and schedules, relevant Gazette notifications can be downloaded from Inland Revenue Department Web Portal [www.ird.gov.lk](http://www.ird.gov.lk)

For any further clarification please contact;

IRD Call Centre	- 1944
Business Consultation Unit	- 2134284/2134286/2134289
Secretariat	- 2135411/ 2135412 / 2135413 / 2135432
PAYE Audit Branch	- 3009411/3009426/3009427

**Commissioner General of Inland Revenue**