



## INLAND REVENUE DEPARTMENT Notice to the Employers and Employees

### Deduction of Tax on Cumulative Income from Employment for the Period 01.01.2020 – 31.03.2020

As you are already informed by the Inland Revenue Department (IRD) by its notice under the reference No. PN/IT/2020 - 03 (Revised) dated 06.04.2020 published in line with the instructions issued by the Ministry of Finance, subject to formal amendments to the Inland Revenue Act, No. 24 of 2017 (IRA), mandatory requirement under Section 83 of the IRA for deduction of Withholding Tax (WHT) on employment income under Pay-As-You-Earn (PAYE) Scheme by the employer on the employment income of a resident employee is removed with effect from 01.01.2020 and deduction of Advance Personal Income Tax (APIT) is replaced in lieu of PAYE tax with effect from 01.04.2020 on optional basis.

However, considering the inconvenience faced by the employees in making their tax payments of the tax liability on employment income for the period from 01.01.2020 to 31.03.2020, employers are allowed to make the tax payment of employees under PAYE scheme either by deducting from their remuneration of respective employees or by any other manner, with the consent of respective employees.

Accordingly, the employers can make the payment of tax by computing the tax liability of respective employees as set out in the table given along with this notice.

Duly computed tax liability and the amount of tax deducted from the remuneration (or as per any alternative arrangement) must be remitted as PAYE tax payment on or before **15<sup>th</sup> May 2020** and relevant details of such liability/payment shall be declared in the PAYE Return of the employer for the Year of Assessment 2019/2020 which is due to be submitted on or before 30<sup>th</sup> April 2020.

For making tax payments to the IRD, please refer to the notice under the reference No. PN/PMT/2020-1 dated 08.04.2020 published in the IRD web portal.

**Commissioner General of Inland Revenue**



**TAXES - FOR A BETTER FUTURE**

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## TAX TABLE

### Deduction of Tax on Cumulative Income from Employment For the period 01.01.2020 – 31.03.2020

This table should be applied for deducting tax on cumulative gains and profits from employment of any employee who agreed for deduction of tax by his employer on his gains and profits from employment. The gains and profits from employment constitutes,

- Monthly regular profits from the employment (Cash and Non-Cash benefits) and
- Lump sum payments

(For value of non-cash benefit, please refer to the Guideline already published)

Above mentioned payments received from January 01, 2020 to March 31, 2020 (hereinafter referred to as “the period”) should be considered under this table.

Following steps should be followed in computing the tax liability.

#### **01. Tax Computation for the Period**

The tax computation should be made as set out below.

Monthly regular profits from the employment (Cash and Non-Cash benefits)	XXX
Lump sum payments	<u>XX</u>
Cumulative gains and profits from employment for the period	<u>XXX</u>

Tax payable for the period should be computed on the cumulative gains and profits in accordance with the Table 01 given below.

**Table – 01 - Cumulative Tax Table**

Cumulative Gains and Profits from the Employment (Rs.)	Tax
0 – 750,000	Nil
750,001 – 1,500,000	6% of Cumulative Income from employment less Rs. 45,000/-
1,500,001 – 2,250,000	12% of Cumulative Income from employment less Rs. 135,000/-
2,250,001 – and above	18% of Cumulative Income from employment less Rs 270,000/-

#### **Example 01**

*Mr. Silva is a resident employee of a private institution and total of his last 3 months regular profits from employment (including non-Cash Benefits) was Rs 960,000. He received a bonus payment of Rs. 640,000 in February 2020.*

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*Tax liability should be computed as follows:*

**Tax Computation for the Period (January –March, 2020)**

	<i>Rs.</i>
<i>Gross regular employment income for the period</i>	<i>960,000</i>
<i>Bonus received in February</i>	<u><i>640,000</i></u>
<i>Gross payments for the period</i>	<u><u><i>1,600,000</i></u></u>
<i>Tax payable for the period</i>	<i>57,000</i>
<i>(By applying the relevant tax rate in Cumulative tax table (1,600,000 X 12%) – 135,000)</i>	

**02. Tax on Tax Rates**

Tax on tax arises in the following instances:

- i. When an employer or any other person settles income tax liability of an employee, without being deducted from his salary,
- ii. Reimbursement by the employer of Income Tax already deducted from employee's salary.

Determine the tax payable for the period in accordance with the Table 01 by following the instruction given under item 01 above.

Use Table 02 for computing tax on tax where applicable, in respect of the tax liability on cumulative emoluments of employee for the period.

**Table – 02 - Tax on Tax Rates**

<b>January to March Tax (Rs.)</b>			<b>Tax on Tax Rate</b>
0	-	42,300	6.38%
42,301	-	121,500	13.64%
121,501	-	and above	21.95%

**Example 02**

*Mr. Perera's gross remuneration for the period from 01.01.2020 to 31.03.2020 was 2,600,000/-. Employer has undertaken to pay his tax without deducting from his remuneration.*

*Computation of tax payable by the employer is as follows: -*

	<i>Rs.</i>
<i>Tax payable on Rs. 2,600,000 for the period (as per Table 01)</i>	<i>198,000</i>
<i>Add- Tax on Tax at 21.95% of Rs. 198,000 (as per Table 02)</i>	<u><i>43,461</i></u>
<i>Total income tax payable for the period by the employer</i>	<u><u><i>241,461</i></u></u>