



INLAND REVENUE DEPARTMENT
Notice to the Partnerships and Partners in a Partnership

**Computation and Payment of Income Tax
for the Year of Assessment 2019/2020**

As instructed by the Ministry of Finance on January 31, 2020 and March 05, 2020, in line with changes proposed to the Inland Revenue Act, No. 24 of 2017 (IRA), pending formal amendments being made to the Act, income tax liability for the Year of Assessment 2019/2020 of the partnerships and partners in a partnership shall be computed and be paid in accordance with the instructions set out below.

1. Partnership shall be liable to pay income tax in respect of **its taxable income** (including any gains from the realization of any investment assets) with effect from 01.01.2020. However, the computation of Income Tax Liability on the realization of any investment asset of the partnership or partners in a partnership for the year of assessment shall be made as provided by the IRA (No changes to the respective provisions).
2. All partnerships are required to compute its assessable income (other than any gains from the realization of any investment assets) for the year of assessment and may apportion the same between the two periods as for first 9 months [from 01.04.2019 to 31.12.2019 (before the proposed changes)] and for last 3 months [from 01.01.2020 to 31.03.2020 (after the proposed changes)] (hereinafter referred to as the First Period and the Second Period) according to the pro-rata basis based on the time ($\frac{3}{4}$ th to the First Period and $\frac{1}{4}$ th to the Second Period).
3. Subject to the provisions of IRA, the partnership is allowable to deduct any qualifying payments made during the Second Period **in computing its taxable income**.
4. Income Tax Payable **on taxable income** (other than any gains from the realization of any investment assets) of the partnership shall be calculated by applying the relevant tax rates set out below and **shall be paid on or before 15th day of May 2020 as an installment** (Tax Type Code 09).

Taxable Income	Tax Rate
First 250,000	0
Balance	6%

-
5. If the partnership has allocated any share of partnership income to its partners during the First Period, Withholding Tax shall be paid as provided by the Section 84(1)(a)(ii) of the IRA on such allocated amounts. If not, for the purpose of IRA, the allocation occurs as at the end of the Year of Assessment and no withholding tax liability will be attached with such share of partnership income.
6. In calculating the income tax liability of partner in a partnership, the partner's share of any partnership income (including loss) and any share of qualifying payments shall be included or deducted; as the case may be; and the taxable income of the partner shall be computed separately for the two periods of the year of assessment. Non final withholding tax (including partnership withholding tax paid if any) or any tax credit entitled by the partner during the First Period can be deducted from the respective income tax liability and can be claimed a refund (subject to the respective provisions of the IRA before the amendments) if any on such tax credits. Income tax paid by the partnership as an installment for the **taxable income of the partnership** will be allocated to the partners according share of partnership income of the Second period and be treated as a tax credit to the partner in a partnership. If there is any excess tax credit after the deduction of share of income tax in computing the income tax payable by the partner, **no refund shall be made but allowable to carry forward such excess income tax credit to the partner in a partnership.**
7. Illustration is appended

For any clarification, please contact below officers of the Secretariat.

Mr. N. C. Wijewardana – Deputy Commissioner	0112135438 / 0718113870
Ms. Priyanka Dissabandara – Senior Deputy Commissioner	0112135431 / 0714412944
Mr. A. M. Nafeel – Commissioner	0112135412 / 0715350444

Commissioner General of Inland Revenue



Example:

A and B are professionals in a partnership sharing profits on equal basis. Partnership has prepared a single set of financial statements. They derived following gains and profits during the year.

Local professional service receipts for the year of assessment 2019/2020	= Rs. 60,000,000
Professional services provided to the clients outside Sri Lanka (Foreign currency received to the bank)	= Rs. 20,000,000
Expenses and deductions (other than donations)	= Rs. 20,000,000
Profit allocated to partners on 10.10.2019	= Rs.2,000,000
Withholding tax paid 15.11.2019 on share of partnership	= Rs. 160,000
Donations to approved charity on 10.10.2019	= Rs. 100,000
Donation to approved charity on 20.02.2020	= Rs. 800,000

Income tax payable by the partnership and partners are as follows.

Assessable income from Business

<u>Amounts Included</u>	Rs.	Rs.
Service Income		
Local	= 60,000,000	
Foreign	= 20,000,000	80,000,000
<u>Less: Exempted Amounts</u>		
Foreign professional service income 20,000,000 X ¼		(5,000,000)
Less: Expenses and Deduction	(20,000,000)	
Add: Disallowable expenses on exempted amounts = (20,000,000/80,000,000) X 20,000,000) X ¼	1,250,000	(18,750,000)
Assessable Income for the year of assessment		<u>56,250,000</u>

Apportionment of the assessable income

From 01.04.2019 to 31.12.2019	= 56,250,000 X 3/4	= 42,187,500
From 01.01.2020 to 31.03.2020	= 56,250,000 X 1/4	= 14,062,500

Computation of Taxable Income of AB Partnership for the 4th Quarter

Assessable income	14,062,500
Less: Qualifying Payments	
1/5th of the Taxable Income or Rs. 500,000 whichever is less	(500,000)
Taxable Income	<u>13,562,500</u>

Tax Computation

First 250,000	= 0
Balance = 13,312,500 x 6%	= 798,750 (Payable on or before 15.05.2020)

Distribution of share of income, qualifying payments and Tax credits (Rs.)

	A	B
Share of Partnership Income for the First Period	21,093,750	21,093,750
Share of Partnership Income for the Second Period	7,031,250	7,031,250
Share of Qualifying Payments Donations to approved charity (Deductible subject to 1/3rd of the Taxable Income or Rs. 75,000 whichever is less for individual)	450,000	450,000
Share of Withholding Tax	80,000	80,000
(Partners are entitled to a refund for any excess amount, after the deduction of above share of withholding tax in computing the partners' income tax payable)		
Share of Income Tax Credit (subject to the payment of due amount)	399,375	399,375

(Partners are not entitled to a refund but allowed to be carried forward any excess amount, after the deduction of above share of Income tax credit in computing the partners' income tax payable.)

Computation of Income Tax Payable by A and B (assumed no any other income to partners)

Description	A		B	
	First Period of the Y/A	Second Period of the Y/A	First Period of the Y/A	Second Period of the Y/A
<u>Assessable Income from Business</u>	<u>Rs'</u>	<u>Rs'</u>	<u>Rs'</u>	<u>Rs'</u>
Partner's share	21,093,750	7,031,250	21,093,750	7,031,250
Total Assessable Income	21,093,750	7,031,250	21,093,750	7,031,250
Less: Personal Relief	(375,000)	(750,000)	(375,000)	(750,000)
Relief on Service income received in foreign currency (Note 1)	(5,625,000)		(5,625,000)	
Qualifying Payments	(50,000)	(25,000)	(50,000)	(25,000)
Paid 450,000 Allowed 75,000				
(1/3 rd of Taxable Income=5,343,750 higher than Rs. 75,000)	15,043,750	6,256,250	15,043,750	6,256,250
<u>Taxable Income</u>				
<u>Tax on Taxable Income</u>				
First Period				
• Rs. 450,000 each tax slabs by applying tax rates as 4%, 8%,12%, 16% and 20%	270,000		270,000	
• Balance @ 24%	3,070,500		3,070,500	
Second Period				
• Rs. 750,000 each tax slabs by applying tax rates 6% and 12%		135,000		135,000
• Balance @ 18%	(80,000)	(399,375)	(80,000)	(399,375)
Less: Tax Credits (WHT and Income Tax)				
Tax Payable by the Partners	3,260,500	591,750	3,260,500	591,750

Note 1: Foreign Income from service rendered outside Sri Lanka for first period

Income = 20,000,000 X 3/4 = 15,000,000

Less: Disallowable expenses on exempted amounts

= (20,000,000/80,000,000) X 20,000,000) X 3/4 = (3,750,000)

Assessable Income 11,250,000

To partner A = Rs. 5,625,000

B = Rs. 5,625,000

Remarks:

Partners are liable to make the quarterly installments as provided in Section 90 of the IRA. Therefore, due tax payable amount for the First Period of the year of assessment should have been paid by the partners on or before the 15th August 2019, 15th November 2019 and 15th February 2020 subject to the section 90 based on the Statement of Estimated Tax Payable filed under Section 91 of the IRA. Due tax payable amount for Second Period of the year of assessment shall be paid on before the 15th May 2020.