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உள்ளநாட்டு இறைவரித் திணைக்களம்
DEPARTMENT OF INLAND REVENUE

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Circular No: SEC/2020/04

May 19, 2020

Circular to Withholding Agents (WHA)

Deduction of Withholding Tax and Advance Income Tax

This Circular sets out explanatory notes and guideline to Withholding Agents, to facilitate the application of the proposed changes as already notified by the Commissioner General of Inland Revenue (CGIR) by his 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), to be passed in Parliament, for the deduction of **Withholding Tax** (hereinafter referred to as “WHT”) or **Advance Income Tax** (hereinafter referred to as “AIT”) from payments of any amounts as winning from lottery, reward, betting or gambling, Sale price payable to the seller of any gem sold at an auction conducted by the National Gem & Jewellery Authority, interest and discount payments by any persons other than banks and financial institutions, dividend, charge, natural resource payment, rent, royalty, premium, retirement payment or any other payments.

This circular is effective from April 01, 2020.

A. Payments of whom subject to WHT

- i. WHT shall be deducted on any of above payments which has a **source in Sri Lanka** except the exempt amounts paid to any **non-resident person**.
- ii. Payments to **any person** (Resident or non-Resident) of any amounts as winning from lottery, reward, betting or gambling, or Sale price payable to the seller of any gem sold at an auction conducted by the National Gem & Jewellery Authority are liable to be deducted WHT.

1. Types of Payments and WHT Rates

- i. Payments of any amounts as winning from lottery, reward, betting or gambling to any person is liable to WHT at 14%. However, any winning from a lottery, the gross amount of which does not exceed Rs. 500,000 is not subject to WHT.

- ii. Sale price payable to the seller of any gem sold at an auction conducted by the National Gem & Jewellery Authority is liable to WHT at 2.5%
- iii. Payment of any amounts by a resident person as charge, natural resource payment, rent, royalty, premium, retirement payment and other similar payments (excluding exempt amounts) which has a source in Sri Lanka, paid or payable to any non-resident person is liable to WHT at 14%.
- iv. Payments of any amounts as interest (excluding exempt Interest), discounts which has source in Sri Lanka, payable to any non-resident person is liable to be deducted of WHT at 5%.
- v. Payments by a resident person to a non-resident person with respect to land, sea, air transport or telecommunication service in terms of section 85(2) and Extraordinary Gazette Notification No. 2064/51 dated April 01, 2018, is liable to WHT at 2%, subject to the provisions of relevant Double Tax Avoidance Agreement (DTAA)

2. Application of DTAA Provisions

Subject to the provisions of relevant Double Tax Avoidance Agreement (DTAA) between Sri Lanka and the non-resident persons' resident country, lower WHT rate (compared to the rates in above item 1) may be applicable for such payments. The person who making such payments are required to obtain a Tax Clearance Certificate from the Inland Revenue Department for the payments to non-residents and lower rates will be considered (if applicable) when issuing such tax clearance certificates

3. Procedures to be Followed in deducting WHT

- i. Gross amount excluding any Value Added Tax payable (only to the Commissioner General of Inland Revenue of Sri Lanka) is considered as the payment for the deduction of WHT.
- ii. If any person wants to remit the total amount of any invoice to a non-resident person, the invoiced amount should be treated as the net amount and the relevant withholding tax should be calculated based on the grossed-up amount.
- iii. The person is required to apply the currency exchange rate (selling rate) published in the Central Bank Website which is relevant for the date of remittance to convert foreign currency amount into rupee amount.
- iv. If the investment is jointly owned by the declarant with another person, relevant payment shall be apportioned among the joint owners in proportion to their interests in the investment. Where the interests of joint owners cannot be ascertained they shall be treated as equal.

4. Exempt Income

- i. The interest accruing to or derived by any person outside Sri Lanka on any loan granted to any person in Sri Lanka or to the Government of Sri Lanka.

- ii. Dividend paid by a resident company to a member to the extent that dividend payment is attributable to, or derived from, another dividend received by that resident company or another resident company.
- iii. Dividend paid by a resident company to a member to the extent that dividend payment is attributable to, or derived from, another dividend received by that resident company or another resident company that was subject to withholding under section 84.
- iv. Dividend paid by a resident company to a member who is a non-resident person
- v. Dividend paid by a resident company which is engaged in any one or more of the following businesses in accordance with the provisions of the PART IV of the Finance Act, No. 12 of 2012 and within the meaning of an agreement entered into with the Board of Investment of Sri Lanka established under the Board of Investment of Sri Lanka Law, No. 4 of 1978:-
 - a. entrepot trade involving import, minor processing and re-export;
 - b. 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;
 - c. providing front end services to clients abroad;
 - d. headquarters operations of leading buyers for management of financial supply chain and billing operations;
 - e. logistic services such as bonded warehouse or multi- country consolidation in Sri Lanka.
- vi. Amounts derived by
 - a. the Government of a foreign country of foreign territory to the extent specified under a diplomatic immunities law or a similar law;
 - b. an international organization to the extent specified under a diplomatic immunities law or a similar law or an agreement between the organization and the Government of Sri Lanka, provided that the exemption provided under the agreement shall be broader than that provided under diplomatic immunities law or a similar law.
- vii. Any amount derived by any non-resident person from laboratory services or standards certification services.
- viii. Any winning from a lottery, the gross amount of which does not exceed Rs. 500,000;

B. Advance Income Tax (AIT)

AIT is deductible on dividend, interest, discount, charge, natural resource payment, rent, royalty, premium or similar payments made to any resident person subject to the consent given by such person. If the consent is not granted, in no case AIT could be deducted.

1. Declaration to the Withholding Agent (WHA)

The resident person who receives or derives any amount of above payments (excluding exempt amounts) which has source in Sri Lanka from the WHA/payer, may make a

declaration in which he may express his consent to deduct AIT as in the given format (Annexure 1(a) & 1(b)) to the payer.

2. Rates of Deduction

AIT is deductible by applying the relevant income tax rates on the relevant amounts declared by the person in their declarations as given below.

i. If the recipient is an individual

Amount of Payment (Rs.)		Tax Rate
For Annual Deductions (Y/A)	For Monthly Deductions	
Maximum up to Rs. 3,000,000	Maximum up to Rs. 250,000	6%
Next, but Maximum up to Rs. 3,000,000	Next, but Maximum up to Rs. 250,000	12%
Balance	Balance	18%

ii. If the recipient is a person **other than resident individual**,

Type of Entity	Tax Rate	Amount of Payment (Rs.)*
Partnership	6%	
On Dividend to Resident Company	14%	
Charitable Institution	14%	
Employees Trust Funds, Provident Fund, Pension Fund or Terminal Funds	14%	
Other Resident Entities including Resident Company	24%	

**(Amount of payment for which AIT to be deducted must be specified by the declarant as applicable. The declarant can exclude the exempted amounts for AIT deduction purposes)*

C. COMMONLY APPLICABLE GUIDELINES FOR WHT AND AIT

1. Time of Tax Deduction

Tax should be deducted at the time, that the relevant amount is paid, credited, re-invested, accumulated, capitalized or made available to the person; as the case may be; by the payer/withholding agent in making such payments.

2. Payments of Tax Deducted

Every person /WHA who has deducted WHT or AIT shall pay the relevant tax to the Commissioner General of Inland Revenue within fifteen days after the end of each calendar month. Relevant tax type codes for the payments are as follows.

- WHT/AIT on Interest 43
- WHT on Other Payments 44

However, WHT due on the payments to non-resident persons will be collected as informed in the circulars and notices issued by the Commissioner General of Inland Revenue in respect of the furnishing of Tax Clearance Certificates to Banks for Outward Remittances.

3. Certificate of Deduction

Every person /WHA who has deducted WHT or AIT is required to issue a certificate of WHT or AIT deduction; as the case may be; to every person in the specified format. The WHT / AIT certificate shall cover a calendar month and shall be served within 30 days after the end of the month.

4. False or Misleading Statement

A declaration, statement or certificate provided to a bank or financial institution is treated as a statement made to a tax official for the purpose of section 181 of the IRA and penalty will be imposed for false or misleading in a material particular.

5. Records to be Maintained by the Payer /WHA and Their Obligations

- i. The WHA who is deducting Withholding Tax or Advance Income Tax shall be a registered Withholding Agent under the Commissioner General of Inland Revenue. If the registration has not obtained, the person is required to obtain a registration number from the Commissioner General not later than 30 days prior to the commencement of deduction of WHT / AIT.
- ii. For the purpose of deduction of AIT, separate registration is not required to any WHA, he can continue under the same registration of WHT Agent.
- iii. Such Persons shall keep proper records (including the declarations received by them) as per the annexure 3 and shall be furnished at the request of tax official or for the inspection of the tax official.
- iv. Schedules to the Annual Statements should be submitted on WHT and AIT deducted and such schedules are required to be furnished in (Excel csv format) electronic form. However, if number of WHT/AIT deducted persons (taxpayers) are less than 20, hard copies may be submitted.


A. Nadun Guruge
Commissioner General of Inland Revenue

Nadun Guruge
Commissioner General
Department of Inland Revenue,
Sir Chittampalam A.Gardiner Mawatha,
Colombo 02.

INLAND REVENUE DEPARTMENT

To:

(Name & address of the Payer / Withholding Agent)

Nature of the Payment.: Interest / Dividend / Charge / Rent / Royalty/ Natural Resource Payment/Any other periodic Payment (please mention the nature of payment)

Year of Assessment:

DECLARATION BY RESIDENT INDIVIDUALS

I,.....
(Full Name) of
 (Address).....

hereby declare that;

I am a resident of Sri Lanka (as per the provisions of the Inland Revenue Act, No. 24 of 2017) and, the Assessable Income (including from other sources of income) derived by me for the above year of assessment is likely to exceed Rs. 3,000,000.

Therefore, please deduct the Advance Income Tax (AIT) from above payments as follows.

Estimated Assessable Income for the Y/A Rs.	Rate	Amount of payment should be considered for AIT deduction purpose (Rs.)
3,000,000 – 6,000,000	6%	*
6,000,001 – 9,000,000	12%	*
9,000,001 and above	18%	

*Maximum amount should be Rs.3,000,000

National Identity Card No.

Taxpayer Identification No.

I certify that the above declaration made by me is true and correct.

Any changes to my residence status will be notified at the time of such change.

.....

Date

.....

Signature of the Declarant

(* please strike-off the statements not relevant)

INLAND REVENUE DEPARTMENT

To:

.....

.....

(Name & address of the Payer / Withholding Agent)

Nature of the Payment.: Interest / Dividend / Charge / Rent / Royalty/ Natural Resource Payment/Any other periodic Payment (please mention the nature of payment)

.....

Year of Assessment:

DECLARATION BY RESIDENT ENTITIES

I,.....

.....(Full Name of the declarant, manager, director, secretary or authorized officer of the entity) the.....(designation) of

.....

.....(name of the entity) which is having its registered office at.....

.....(address of the entity) is hereby declare that; this entity is a resident entity of Sri Lanka (as per the provisions of the Inland Revenue Act, No. 24 of 2017) and, there may be an Assessable Income derived by this entity for the above year of assessment.

Therefore, please deduct the Advance Income Tax (AIT) for the year of assessment as follows,

Type of Entity	Tax Rate	Amount of Payment (Rs.)*
Partnership	6%	
Charitable Institution	14%	
Employees Trust Funds, Provident Fund, Pension Fund or Terminal Funds	14%	
Other Resident Entities including Resident Company	24%	

**(Amount of payment for which AIT to be deducted must be specified by the declarant as applicable. The declarant can exclude the exempted amounts for AIT deduction purposes)*

Taxpayer Identification No.

I certify that the above declaration made by me is true and correct.

.....
Date

.....
Signature of the Declarant

(* please strike-off the statements not relevant)

Certificate No./ Serial No:

TIN of the Withholding Agent:.....

Certificate of Advance Income Tax (AIT) Deduction

Name and address of the WHA

.....

Name and address of the recipient:.....

.....

Reference Number of the Declaration.....

National Identity Card No. /Passport No. / Tax Identification No.:.....

Period: from: to:

Gross amount of the payment (Rs.):

Type of Person	Applied Rate	Amount subjected to AIT (Rs.)	Amount of AIT Deducted (Rs.)
Resident Individual	6%		
	12%		
	18%		
Resident Entity	6%		
	14%		
	24%		
Other			
Total			

.....

Name and Signature of the Authorized Officer

.....

Date

Certificate No:/ Serial No:

TIN of the Withholding Agent:

Certificate of Withholding Tax (WHT) Deduction

Name and address of the WHA

.....

Name and address of the recipient:.....

.....

National Identity Card No. /Passport No. / Tax Identification No.:.....

Period: from: to:

Gross amount of the payment (Rs.):

Type of Person	WHT Rate %	Amount subjected to WHT (Rs.)	Amount of WHT Deducted (Rs.)
Resident Individual			
Non-Resident Individual but Citizen			
Non-Resident Non-Citizen Individual			
Resident Entity			
Non-Resident Entity			

.....
 Name and Signature of the Authorized Officer

.....
 Date

Annexure 3

Following schedule shall be prepared for the deduction of Withholding Tax including the payments made to non-residents (excluding payments for import of tangible goods) that are not subject to Withholding Tax.

	Serial Number
	Nature of Payment
	Name of the Recipient
	Address of the Recipient
	Recipients' Resident Country
	Whether Citizen in Sri Lanka or Not
	Payment Period
	Gross Amount Paid (Excluding VAT)
	TIN/ NIC or Passport Number, if any
	Tax Clearance Certificate Reference No.
	Amount Considered for Deduction
	Tax Rate
	Amount of Tax Deducted
	WHT Certificate Reference

Following schedule shall be prepared for the deduction of Advance Income Tax

	Serial Number
	Name
	Address
	TIN/ NIC or Passport Number
	Nature of Payment
	Payment Period
	Gross Amount Paid
	Declaration Reference
	Amount Considered for Deduction
	Tax Rate
	Amount of Tax Deducted
	Certificate Reference (if issued)