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இலங்கை உள்ளாட்சி இறைவரி  
SRI LANKA INLAND REVENUE

# **Amendments to Inland Revenue Act No.24 of 2017**

**TAX POLICY AND LEGISLATION UNIT**

# OUTLINE

- 1. Exemptions**
- 2. Amendments applicable for the computation of taxable income**
- 3. Tax rates**
- 4. Tax payments**
- 5. Qualifying payments and reliefs**
- 6. Tax administrative actions**
- 7. Tax relief measures to facilitate post COVID-19 economic recovery**



# NEW EXEMPTIONS

Exemption	Effective Date
<b>Interest</b> from the provision of loans to any person in Sri Lanka or to the Government of Sri Lanka, by a <b>person outside Sri Lanka</b>	<b>01.04.2018</b>
<b>Any sum</b> received by <b>public corporations</b> from <b>Consolidated Fund</b> or any loan arranged through the <b>Government</b>	<b>01.04.2018</b>
Interest, discount or realisation gains derived from <b>sovereign bond</b> denominated in <b>local or foreign currency</b> , to any <b>non-residents other than SLPE</b>	<b>01.04.2018</b>
Interest or discount derived from sovereign bond denominated in foreign currency, including <b>Sri Lanka Development Bonds</b> , to any <b>person</b>	<b>01.04.2018</b>

# NEW EXEMPTIONS

Exemption	Effective Date
<p>Sale of <b>agro farming</b> produces (Exempted for 5 Years)</p> <p><b>Agro Farming</b> means:</p> <p>(1) 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;</p> <p>(2) the <b>cleaning, sizing, sorting, grading, cutting or chilling</b> of any produce produced out of any activity referred to in paragraph (1) by any person, <b>in preparation of such produce</b> for the market but <b>excludes the agro or food processing</b>;</p>	<b>01.04.2019</b>
Interest accruing to <b>any person</b> from any Foreign currency account opened in a licensed commercial bank or with authorised dealer	<b>01.01.2020</b>



# NEW EXEMPTIONS

Exemption	Effective Date
<b>Dividend</b> payments by a resident company, to a member to the extent that such dividend is attributable to, or derived from, gains and profits from <b>dividend</b> (net of tax and other deductions) <b>received</b> by the resident company.	<b>01.01.2020</b>
<b>Dividends</b> declared by resident company <b>to a non-resident</b>	<b>01.01.2020</b>
Dividends declared by resident companies engaged in Commercial hub activities	<b>01.01.2020</b>
Provision of <u>Information technology and enabled services</u> as <b>prescribed in a gazette</b>	<b>01.01.2020</b>
Service <b>rendered in or outside Sri Lanka</b> to any person to <b>be utilized outside Sri Lanka</b> (foreign currency should be remitted to Sri Lanka)	<b>01.01.2020</b>

# NEW EXEMPTIONS

Exemption	Effective Date
Any <b>foreign source</b> ; relevant gains should be earned and remitted to Sri Lanka in foreign currencies	01.01.2020
Any amounts derived from the provision of <b>laboratory services or standards certification services</b> by a <b>non resident person</b>	01.01.2020
<b>Grants or donation to any religious institution</b> which is registered with the ministry in charge of the subject of religious affairs	01.01.2020
Interest accruing to any person from a term deposit account titled as <b>Special Deposit Account</b> opened and maintained either in local or foreign currency in a licensed commercial bank or with authorised dealer.	08.04.2020
Business or capital gains derived by <b>any person</b> from the disposal of land or building to a Sri Lanka Real Estate Investment Trust (SLREIT)	01.04.2021



# NEW EXEMPTIONS

Exemption	Effective Date
Interest accrued or derived by a <b>welfare society</b> including welfare fund and benevolent fund which promotes the savings of members	01.04.2021
Gains from realisation of <b>Sri Lanka International sovereign bonds</b> , if made an <b>aggregate investment</b> not less than USD 100 million	01.04.2021
Interest or discount derived <b>to any Samurdhi Community based bank</b> from investment on treasury securities	01.04.2021



# NEW EXEMPTIONS

Exemption	Effective Date
Gains and profits from <b>exporting of gold, gems or jewellery</b> or cutting and polishing gems for export - foreign currency should be remitted to Sri Lanka	01.04.2021
Business gains and profits from an undertaking for letting <b>bonded warehouses or warehouses related to the offshore business</b> , in the <b>Colombo and Hambanthota Ports</b>	01.04.2021
Dividends, gains on the realisation of units, amounts derived as business or capital gains from the realisation of capital asset, to a <b>unit holder of SLREIT</b> .	01.04.2021
Gains and profits from conducting Vocational educational programmes, standardized under <b>TVET concept</b> by any Vocational educational institution regulated by Tertiary and Vocational Education Commission. Condition: <b>student intake</b> should be <b>doubled</b> compared to the previous year for same programmes or first year student intake (doubled in first year) is required to maintain for balance 4 years period.	01.04.2021 (for Five Years Period)

# NEW EXEMPTIONS

Exemption W.E.F. 01.04.2021	Exemption applies for	Exemption Period
New undertaking which is involved in the sale of <b>construction materials recycled in a selected separate site</b> established in Sri Lanka to recycle the materials which were already used in the construction industry	Business gains and profits (other than gains from the disposal of capital assets or liabilities) **two years of project implementation period granted	10 Years
New businesses commenced by an Individuals <b>who have completed the vocational education</b> from an institute standardized under TVET concept		5 Years
New business commenced to <b>manufacture boats or ships in Sri Lanka</b> and gains and profits from sale of such boats or ships		7 Years
<b>Renewable energy project</b> established with a capacity to produce not less than <b>one hundred Mega Watts</b> of solar or wind power and supplied such power to the national grid.		7 Years



# NEW EXEMPTIONS

Exemption W.E.F. 01.04.2021	Exemption applies for	Exemption Period
<p>Construction and installation of <b>communication towers and related appliances</b> using local labour and local raw materials or provision of required technical services for such construction or installation.</p>	<p>Business gains and profits (other than gains from the disposal of capital assets or liabilities)  <b>**two years of project implementation period granted</b></p>	<p><b>5 Years</b></p>
<p>• <b>Remittance tax</b> (at the rate of 14% on remitted profit) is not required to be paid by a SLPE who earned profits and income and <b>retained such total profit for minimum of three years</b> period by investing in Sri Lanka to expand its business or to acquire shares or any securities from Colombo Stock Exchange or to acquire any treasury bill, treasury bond or Sri Lanka International sovereign bonds. The exemption is applicable on such invested retained profit is remitted whenever after that three years (Concession granted From 01.04.2021).</p>		

# AMENDMENTS APPLICABLE TO COMPUTE THE TAXABLE INCOME

- ❑ **Consideration received** for the purpose of **capital gain** will be calculated based on the amount received or receivable or the "**assessed value**" at the time of realization of such asset, whichever is higher.
- ❑ Assessable charges or balancing allowance can be split in to parts, where the relevant asset is used to produce gains and profits **taxable at different rates**.
- ❑ **Capital allowances** are granted within **2** years for **milking machines**.



# AMENDMENTS APPLICABLE TO COMPUTE THE TAXABLE INCOME – CONTD.

- ❑ **Repair** expenditure will be **allowed** as a deduction whether the expenditure is in capital nature or not. **Improvement** expenditure **restricted** to 5% on buildings and related assets (class 4) and 20% for others.
- ❑ **Removed** the existing **restriction** for **SME** to deduct its brought forward **reduced rate losses** from its businesses when the company earn business **profits taxable at a higher rate** of income tax.



## **AMENDMENTS APPLICABLE TO COMPUTE THE TAXABLE INCOME –CONTD.**

- ❑ **Marcom Expenditure deduction( including capital nature expenditure)**
  - ✓ **market researches** carried out by the person or any **institution in Sri Lanka** on his behalf
  - ✓ **development or production of marketing, advertising and communication campaign** to the extent that such development or production is **carried out in Sri Lanka**;
  - ✓ **advertising** on mainstream media or social media including television, radio, print or as outdoor advertising;
  - ✓ **product launches or campaign activation** carried out by the person or by any **local institution** on his behalf;
  - ✓ **development and printing of point of-sale material** by the person or by any **local institution** on his behalf.



## **AMENDMENTS APPLICABLE TO COMPUTE THE TAXABLE INCOME –CONTD.**

- ❑ **Marcom Expenditure - Requirement to qualify for the additional 100% deduction with an upper cap of Rs.500 Million for a year (provided only for 3 years period)**
  - ✓ **Payments should not be made to an associates**
  - ✓ **internal marketing expenses, salaries of marketing staff, expenditure on maintaining an internal marketing department, expenditure on CSR initiatives and foreign travel expenses are not permitted for additional deduction**
  - ✓ **expenditure shall be attributable to goods and services with 65% of local value addition (gazette will be issued)**
  - ✓ **Record keeping requirements are gazetted by the Commissioner General**



# AMENDMENTS APPLICABLE TO COMPUTE THE TAXABLE INCOME –CONTD.

❑ **Financial cost** deduction limit re-arranged

$$\frac{A}{B} \times C$$

Where:

'A' = Financial cost of the year; and

'B' = Value of financial instruments on which the financial cost incurred during the year;  
and

'C' = 4 x Total of the issued share capital and reserves of the company at the end of the year

❑ **Financial cost** can be deducted for the **Y/A 2021/2022 without a limit** (if there is any B/F balance, it should be C/F)

❑ Provision of **food and beverages** (other than liquor) will not be considered as entertainment expenditure.

❑ Expiration period extended for another 3 Years, to claim **enhanced capital allowances** under **sixth schedule** to the IRA

❑ **Additional 100% deduction** on research and development expenditure (deductible under Sec.15 of the IRA) will be extended for years of assessment **2021/2022 and 2022/2023**.



# TAX RATES - INDIVIDUALS

Type of TI	Prior to 01.01.2020	After 01.01.2020
On Taxable Income (other than terminal benefits)	The <b>progressive rate structure</b> , from 4% to 20% (4%, 8%, 12%, 16%) having the equal tax slabs of Rs. 600,000/- for each rate. Balance taxable at 24%	First Rs.3 Mn = 6% Second Rs.3 Mn = 12% Balance = 18%
On Terminal Benefits	<ol style="list-style-type: none"> <li>1. If period of employment or contribution is less than 20years, First Rs. 2mn @ 0%, next Rs.1mn @ 5% and balance @ 10%</li> <li>2. If period of employment or contribution is more than 20years, First Rs. 5mn @ 0%, next Rs.1mn @ 5% and balance @ 10%</li> </ol>	First Rs. 10mn @ 0%, next Rs.10mn @ 6% and balance @ 12%
On gains and profits from betting and gaming, liquor or tobacco	Income from a business consisting of betting and gaming, liquor or tobacco = 40%	Income from a business consisting of betting and gaming, <b>manufacture and sale or import and sale of any liquor or tobacco products</b> = 40% (With effect from 01.04.2019)
On gains and profit from sale of gems and jewellery	Progressive rates	Maximum rate of 14% (With effect from 01.04.2021)



# **TAX RATES -PARTNERSHIP**

<b>Partnership Taxation</b>	<b>Prior to 01.01.2020</b>	<b>After 01.01.2020</b>
<b>Chargeability</b>	<b>Withholding Tax on share of income @ 8%</b>	<b>Income tax on taxable income First Rs. 1mn @ 0% and Balance @ 6%</b>
<b>Taxation of partners (WHT or Income Tax Credit)</b>	<b>Refundable to partners</b>	<b>Not refundable, but can C/F</b>



# **TAX RATES - ENTITIES**

<b>Type of Entity</b>	<b>Prior to 01.01.2020</b>	<b>After 01.01.2020</b>
<b>Trust</b>	<b>24%</b>	<b>18%</b>
<b>Company (Normal Rate)</b>	<b>28%</b>	<b>24%</b>
<b>Unit Trust or Mutual Fund</b>	<b>28%</b>	<b>24%</b>
<b>Charitable Institution</b>	<b>14%</b>	<b>14%</b>
<b>NGO</b>	<b>28%</b>	<b>24%</b>
<b>Employee Trust Fund, Provident Fund, Pension Fund, Gratuity Fund, Termination Fund</b>	<b>14%</b>	<b>14%</b>



# APPLICABLE SPECIAL RATES TO COMPANIES

Prior to 01.01.2020		After 01.01.2020	
Small and Medium Enterprises	14%	Gains and profits from the business of a <b>Small and Medium Enterprise</b> (excludes liquor trading, betting and gaming businesses)	14%
Predominantly conducting a business of exporting goods and services	14%	1. Gains and profits from conducting a business of sale of goods or merchandise including <b>export of goods</b> , where the payment for such sale or export is received in foreign currency and remitted through a bank to Sri Lanka	14%
		2. Gains and profits of a <b>specified undertaking</b>	14%
Predominantly conducting an agricultural business	14%	<b>Agro Farming</b> = Exempt, w.e.f. 01.04.2019 Gains and profits from Agro processing	14%

# APPLICABLE SPECIAL RATES TO COMPANIES

Prior to 01.01.2020		After 01.01.2020	
Company with income from a business consisting of betting and gaming, liquor and tobacco (excluding such income which is merely incidental to another business)	40%	1. Gains and profits from conducting betting and gaming	40%
		2. Gains and profits from the <b>manufacture and sale or import and sale</b> of any liquor or tobacco product	40%
Predominantly providing educational services	14%	Gains and profits from providing <b>educational services</b>	14%
Undertaking predominantly engaged in <b>promotion of tourism</b>	14%	Gains and profits of an undertaking for the <b>promotion of tourism</b>	14%
Predominantly providing information technology services	14%	Information technology and enabled services <b>as prescribed</b> = <b>Exempted</b>	-



# APPLICABLE SPECIAL RATES TO COMPANIES

Type of Gains and Profits	Tax Rate After 01.01 2020
Gains and profits from providing <b>construction</b> services	14%
Gains and profits from <b>providing health care services</b>	14%
Gains and profits from <b>dividends</b> received from a resident company	14%
Income generated from the supply of <b>health protective equipment</b> and similar products by BOI companies on the request of Ministry of health, Department of health services, Tri Forces, Sri Lanka Police and COVID centre	14%
Gains and profits from <b>manufacturing</b> (if 14% provided for same income, it can be applied ex: SME, Exports, etc.)	18%
<b>**Realization of investment asset (Capital Gain)</b> Tax Rate applicable for all person (no change)	10%



# APPLICABLE SPECIAL RATES TO COMPANIES

Income	Tax Rate after 01.04.2021
On gains and profits from the consideration received in respect of <b>gems and jewellery</b>	14%
A company list its shares in Colombo Stock Exchange during the period from 01.01.2021 to 31.12.2021, for year of assessment <b>2022/2023 to 2024/2025</b>	14%
<ul style="list-style-type: none"> <li>• <b>Bunkering services</b> provided for the supply of marine fuel, including the <b>supply of marine fuel to local bunker suppliers</b> within a specified port premises</li> <li>• <b>Sale of good manufactured in Sri Lanka by a BOI export-oriented company</b>, to any other BOI company or to any company enjoying tax holiday under the Strategic Development Projects Act, No.14 of 2008, and which is permitted to import project related goods or raw materials on duty free basis under the provisions of such agreement, <b>during the project implementation period</b>; or to any person eligible to import specific goods on duty free basis under any Government Authority, but, up to the quantity approved by the BOI as <b>import replacement withing the 3 years period</b> commencing on April 1, 2021.</li> </ul>	14% (Specified Undertakings)

# APPLICABLE SPECIAL RATES TO COMPANIES

Income	Reduction of tax
A company list its shares in Colombo Stock Exchange during the period from 01.01.2021 to 31.12.2021 for Year of Assessment 2021/2022 (on aggregate tax excluding capital gain tax)	50%
On the relevant tax liability of dividend income derived by a multinational company (from 01.04.2021)	
(i) if export increased by minimum of 30% in 2021/2022 compared to the year 2020/2021	30%
(ii) if export increased by minimum of 50% in 2022/2023 compared to the 2020/2021	50%
(iii) if export increased by minimum of 50% in 2023/2024 compared to the 2020/2021 or same status in (ii) above is maintained for 2023/2024	50%
On attributable quantum of the relevant tax liability, if agricultural produces from farming activities are used for processing or manufacturing activities by the same person (from 01.04.2021)	25%



# TAX PAYMENTS

## Withholding Tax

- WHT (PAYE) by employers (Sec.83), WHT on investment returns (Sec. 84) and WHT on service fees and contract payments ( sec.85) - **removed with effect from 01.01.2020**
- However, following payments are **liable for WHT** even after the date of **01.01.2020**
  - Amounts as winnings from a **lottery, reward, betting or gambling** (Amount exceeds Rs. 500,000) = 14%
  - **Gem sold at an auction** conducted by National Gem Authority from the sum payable to the seller = 2.5%
  - **Payments to non resident persons** as interest, discounts, charge, natural resource payment, rent, royalty, premium, service fee or an insurance premium with a source in Sri Lanka (Subject to the provisions in DTAA)
    - Interest or discount paid                      5%
    - All other payments                                      14%



# TAX PAYMENTS –CONTD.

## Final Withholding payments (After 01.01.2020)

- Amounts paid as **winnings from a lottery, reward, betting** or gambling other than amounts received in conducting a business consisting of betting and gaming (If the winning from lottery is less than Rs. 500,000, exempted)
- Payments made to **non-resident who is not the citizen** of Sri Lanka or to the non-resident entities, that are subject to withholding, other than payments derived through a Sri Lankan permanent establishment
- **Interest paid** to or treated as being derived by a **non-resident but citizen** of Sri Lanka (subject to the deduction of personal relief - Rs. 3 Million)
- Since, tax payable by withholding has removed, taxpayers who have a taxable income [Sec. 2(1) (a) ]are **required to make the payments as instalments and as assessments** (Sec.82).



# APIT AND AIT

- **Advance Personal Income Tax (APIT)** was introduced with effect from **01.04.2020**, for employment income and it is a **compulsory deduction on the relevant payments made by an employer to non-residents and non-citizens** but optional for residents and citizens.
- **Employees** who are having a **taxable income for the year are required to, register with IRD**, file returns of income and make payments (from year 2019/2020).
- **Advance Income Tax (AIT)** was introduced with effect from **01.04.2020**, on the payments of dividend, interest, discount, charge, natural resource payment, rent, royalty, premium or any similar periodic payments made to a residents. AIT is optional for them and will be deducted only at their request.
- **The Commissioner-General** will issue the required guidelines specifying the deduction of APIT and AIT.



# QUALIFYING PAYMENTS

- ❑ Payments made to consolidated fund by any public corporation is a QP(With effect from 01.04.2019)
- ❑ 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 instructed and confirmed by the Department of Samurdhi Development.
- ❑ Expenditure incurred by any financial institution by way of cost of acquisition or merger of any other financial institution where such cost is ascertained by considering all the facts on case-by-case basis and as confirmed by the Central Bank of Sri Lanka. Total deductible expenditure shall be apportioned in equal amounts over a period of three years and be deductible from the assessable income up to the total qualifying payment.
- ❑ Expenditure incurred in the production of a film at a cost (including promotional expenditure of such film) not less than five million rupees or in the construction and equipping of a new cinema at a cost not exceeding twenty-five million rupees or in the upgrading of a cinema at a cost not exceeding ten million rupees. The deduction will be restricted to one third of the taxable income of the year and can be carried forward to next year.



# RELIEFS FOR RESIDENT INDIVIDUALS

- **Personal Relief** (provided for non-resident Sri Lanka citizens as well) increased to Rs. 3 Million (from 01.01.2020)
- Rent relief as provided in IRA
- **Expenditure relief** (from 01.01.2020) Maximum amount of deduction is restricted to Rs. 1,200,000 for Y/A
  - Health expenditure including contributions to medical insurance
  - Education expenditure (including vocational education) incurred locally for such individual or on behalf of his children
  - Interest paid on housing loans
  - Contribution made to local pension schemes
  - Expenditure incurred for the purchase of equity or securities (TB issued under TB ordinance, Stocks or securities under reg. stock ordinance, Corp. debt sec. traded on CSE)
- Expenditure incurred on **solar panels** (from 01.04.2021) fixed on premises and connected to the national grid, maximum deduction for year is Rs. **600,000** (including repayment of loan)



# TAX ADMINISTRATIVE PROVISIONS

- **Single capital gains return** should be submitted for **all transactions in a month** (payment and return is due on or before 30 days, after the end of relevant month)
- **Mandatory to use** the Tax Identification Number (**TIN**) in all tax related source documents or underlying documents of the taxpayer
- **E-filing is mandatory** for all limited liability **companies** whether resident or non-resident, including public corporations
- **Separate accounts** should be maintained to identify each gains and profit or exempted gains and profits, **if different tax rates are applicable** in computing income tax payable or may having exempted amounts



# **TAX ADMINISTRATIVE PROVISIONS-CONTD.**

- **The Commissioner-General is issuing guidelines as may be necessary for the calculation of income tax payable for the year of assessment 2019/2020**
- **Return and Payments for Year of Assessment 2019/2020- time available up to June 30<sup>th</sup> 2021; no interest on the payments due as fourth instalment and assessment payment; No penalty/criminal proceedings if payment made and return submitted before 30.06.2021**
- **Taxpayer who aggrieved by the decision on administrative review of an assessment may appeal to the Tax Appeals Commission within thirty days from the date of receipt of decision of the Commissioner-General (Commissioner-General may issue his decision within six months) or within next thirty days from the date lapsed the seven months since the request for administrative review was made under section 139.**



# **TAX RELIEF MEASURES TO FACILITATE POST COVID-19 ECONOMIC RECOVERY**

- **Action will be taken to write off any income tax arrears (after the deduction of any refund) payable by any **Small and Medium Enterprise** as interpreted in Section 195 (Defined in relation to the Year of assessment 2019/2020) of the IR Act, if such arrears arise due to any assessment made (**other than assessments made for tax payments as per the returns, but any penalty will be written off subject to the payment of tax on return**) **up to the year of assessment 2018/2019** which is outstanding as at June 26, 2020, in the record of the Commissioner General.**



# **TAX RELIEF MEASURES TO FACILITATE POST COVID-19 ECONOMIC RECOVERY-CONTD.**

- **It will not issue an amended or additional income tax assessment** (unless an application has been made to amend the self-assessment) for the year of assessment ending on March 31, 2020 (**2019/2020**) where the Commissioner-General satisfies that there is no fraud or willful neglect is involved in disclosure of income or any deduction or relief by the **Small Medium Enterprise who paid the tax declared in the return.**





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