



KPMG Sri Lanka

Tax News Flash

May 2020

TAX UPDATE

For clients of KPMG in Sri Lanka

The Department of Inland Revenue (“DIR”) has released the attached notices dated 6th May 2020, providing instructions to be followed by taxpayers in computing income tax payable and making tax payments for the year of assessment 2019/2020.

These notices are intended to provide further clarifications on the implementation of proposed amendments to the Inland Revenue Act No. 24 of 2017 (“IR Act”) which were notified by the DIR via its notice (PN/IT/2020-03 (Revised)) dated 8th April 2020.

We have attached hereto the notices issued by the DIR and have provided below a synopsis of same:

Companies – Notice Ref. PN/IT/2020-06

Computation of assessable income and taxable income

Companies are required to compute the assessable income and taxable income for the year of assessment 2019/2020, without separating into two periods, i.e. as period of 9 months from 1st April 2019 to 31st December 2019 (“First Period”), and a period of 3 months from 1st January 2020 to 31st March 2020 (“Second Period”).

Exempt amounts and final withholding payments

The notice on proposed amendments to the IR Act indicated several exemptions with effect from 1st January 2020. In the event a company received or derived any amounts which are exempted as per the proposed changes to the IR Act for the Second Period, 1/4th of the total of such exempt amounts received or derived during the year of assessment shall be excluded as exempt amounts in arriving at the taxable income for the year of assessment 2019/2020.

On the other hand, the actual dividend income received or derived for the First Period shall be excluded as final withholding payments.



The expenses and related deductions which would be deductible from such exempt amounts or final withholding payments, and which are disallowed under Section 10(1)(b)(iv) of the IR Act, are required to be prorated based on the time, i.e. 3/4th for the First Period and 1/4th for the Second Period.

Apportionment of taxable income

The taxable income of the company computed for the year of assessment 2019/2020 based on above instructions is required to be prorated based on time, i.e. 3/4th for the First Period and 1/4th for the Second Period. However, actual dividend income received or derived during the Second Period should be recognized only for the Second Period.

Tax rate

Companies are required to separately calculate the income tax payable for two periods by applying the relevant rates of income tax:

- Income tax rate for the First Period – As per the prevailing IR Act
- Income tax rate for the Second Period – As prescribed in the notice on proposed amendments to the IR Act (PN/IT/2020-03 (Revised)) dated 8th April 2020 issued by the DIR.

For purposes of applying the concessionary rate of tax of 14% by companies “predominantly” engaged in specified businesses, as per the provisions set out in paragraph 4 of the First Schedule of the IR Act, the “predominantly” rule for the First Period shall be ascertained based on the actual gross income of the company for the First Period.

Tax Credits

Subject to the provisions of the IR Act, foreign tax credit, non-final withholding tax credit and other tax credits can be deducted from the amount of total tax payable by the company for the year of assessment 2019/2020.

Revised Statement of Estimated Income Tax Payable

In the case that there is a change to estimated income tax liability of the company for the year of assessment, the company is required to file a Revised Statement of Estimated Income Tax Payable to the DIR as prescribed in Section 91(5) of the IR Act.

Accounting periods ending other than 31st March

If any company has obtained approval from the DIR to prepare its financial statements for 12 months period other than from 1st April to 31st March, above instructions can be applied appropriately for the relevant two periods of the year of assessment, i.e. for the period prior to 1st January 2020 as the First Period and for the period on or after 1st January 2020 as the Second Period.

You may click on the link below to access the notice published by the DIR:

http://www.ird.gov.lk/en/Lists/Latest%20News%20%20Notices/Attachments/245/CIT060520_20_E.pdf

Apportionment of Assessable Income

The assessable income from employment, business and investment for the year of assessment 2019/2020, derived by a resident individual, shall be apportioned over the two periods, i.e. the period from 1st April 2019 to 31st December 2019 as the “First Period” and the period from 1st January 2020 to 31st March 2020 as the “Second Period”, in the following manner:

Assessable income	Basis of apportionment
Employment income	On actual basis for the First Period and the Second Period (gross Remuneration in accordance with the T-10 form)
Interest income	<p>i. The actual amount for respective periods, or</p> <p>ii. Apportioned on pro-rata basis as 3/4th of total interest income to the First Period and 1/4th of total interest income to the Second Period;</p> <p>iii. In the case of a Senior Citizen, if any interest income is received or the apportioned amount under item (ii) in the First Period is less than Rs. 1,500,000, then the interest amount to be allocated to the First Period shall be the amount (“X”) calculated as follows:</p> $X = 1,500,000 - \text{Actual interest income received in the First Period}$
Dividend, rent and other investment income	On actual basis
Business income	On pro-rata basis as 3/4 th of total business income to the First Period and 1/4 th of total business income to the Second Period.

Reliefs

In arriving at the taxable income of a resident individual or a non-resident citizen of Sri Lanka, certain specified reliefs are deductible. The total assessable income can be calculated by aggregating the assessable income after deducting the entitled reliefs over the two Periods. The following rules would apply for the deduction of such reliefs:

- a) Personal relief of Rs.1,125,000 (i.e. 500,000 x 9/12 plus 3,000,000 x 3/12) for resident individuals or non-resident citizens of Sri Lanka, up to the aggregate assessable income (except gains from realization of investment assets) is deductible for the year of assessment 2019/2020, subject to the following:
 - If there is any excess relief not deducted for a particular period such part can be deducted from the balance assessable income of the other Period;
 - Excess personal relief relevant to the Second Period shall not be deducted from the employment income in which PAYE tax has already been deducted;
 - If the relief is not deductible due to the income being considered as a final withholding payment during the First Period, or income for the Second Period is considered as exempt, then the non-deductible relief must be ignored.

- b) Relief granted against employment income of Rs.525,000 (i.e. $700,000 \times 9/12$) shall be deducted against employment income of resident individuals relevant to the First Period and if there is any excess relief, such part can be deducted from the employment income relevant to the Second Period.
- c) Relief against rental income of 25% of the total rental income of resident individuals for the year of assessment 2019/2020 can be deducted from the relevant rent income for the each Period.
- d) Relief against interest income for Senior Citizens of Rs.1,500,000 can be deducted from the relevant interest income derived for the First Period.
- e) Relief against foreign service income of Rs.15,000,000 derived by resident individuals or partners of a partnership can be deducted from the relevant income for the First Period.
- f) Proposed relief up to Rs.300,000 (i.e $1,200,000 \times 3/12$) against following expenditure incurred by a resident individual can be deducted only against the assessable income relevant for the Second Period:
- Health expenditure including the contributions to medical insurance
 - Education expenditure incurred locally for such individual or on behalf of his children
 - Interest paid on housing loans
 - Contribution made to an approved pension scheme
 - Expenditure incurred for the purchase of equity or securities

Qualifying payments

In arriving at the taxable income of an individual for the year of assessment 2019/2020, the aggregate amount of the following qualifying payments can be deducted from any Period:

- a) Donations made in money to an approved charitable institution - subject to limits specified in the IR Act;
- b) Donations made in money or otherwise to the Government or any specified institutions in the Fifth Schedule to the IR Act;
- c) Any excess qualifying payment brought forward from the previous year of assessment under the Inland Revenue Act No. 10 of 2006, according to transitional provisions.

Tax Rates

Individuals are required to separately calculate the income tax payable for the First Period and Second Period by applying the relevant rates of income tax as mentioned in paragraph 06 of the notice.

Refunds and Payable Amounts due to the Deduction of Aggregate Reliefs

Although the tax for the First Period has been correctly calculated in accordance with the prevailing law, any refundable amount or payable amount that would arise for the First Period due to the deduction of aggregate reliefs of Rs.1,650,000 (personal relief plus employment income relief) for the whole year of assessment, will be disregarded.

Statement of Estimated Income Tax Payable and 4th installment payment

The notice intimates that resident individuals are required to submit a Statement of Estimated Income Tax Payable, or a revised Statement of Estimated Income Tax Payable as applicable, for the year of assessment 2019/2020, and to make the relevant income tax 4th installment payment on or before 15th May 2020.

Registration for Income Tax

The notice intimates that any individual who has not registered for income tax and not obtained a TIN for the above purposes, is required to register with DIR using the online facility available in the DIR's portal.

You may click on the link below to access the notice published by the DIR:

http://www.ird.gov.lk/en/Lists/Latest%20News%20%20Notices/Attachments/243/IIT060520_20_E.pdf

Partnerships – Notice Ref. PN/IT/2020-05

Apportionment of Assessable Income

A Partnership is required to compute its assessable income (other than any gains from realization of investment assets) for the year of assessment 2019/2020 and may apportion such assessable income between the two periods on pro-rata basis based on the time, i.e. 3/4th to the First Period (from 1st April 2019 to 31st December 2019) and 1/4th to the Second Period (from 1st January 2020 to 31st March 2020).

A Partnership is liable to pay income tax on its taxable income with effect from 1st January 2020. Computation of income tax liability on the gains on realization of investment assets of a partnership is required to be performed in terms of provisions of the prevailing IR Act.

Qualifying payments

Partnerships are allowed to deduct any qualifying payments made during the Second Period in computing its taxable income.

Tax rates and tax payments

The income tax payable by the Partnership on its taxable income (other than any gains from the realization of investment assets) is required to be calculated by applying the relevant tax rates set out in Paragraph 4 of the notice.

Such income tax liability is required to be settled on or before 15th May 2020 as an installment payment.

If the partnership has allocated any share of partnership income to its partners during the First Period, withholding tax shall be paid as provided in Section 84(1)(a)(ii) of the IR Act on such allocated amounts. If such allocation has not been made, for the purpose of IR Act, the allocation occurs at the end of the Year of Assessment and no withholding tax liability will be attached with such share of partnership income.

Tax treatment of Partners of the Partnership

The partner's share of any partnership income or loss, and any share of qualifying payments shall be considered as applicable, in computing the income tax liability of a partner. The taxable income of the partner shall be computed separately for the First Period and the Second Period of the year of assessment 2019/2020.

The partner's entitlement to any non-final withholding tax (including partnership withholding tax paid if any) or any tax credit arising during the First Period can be deducted from the respective income tax liability and a refund, if any, can be claimed (subject to the prevailing provisions of the IR Act).

Income tax paid by the partnership as an installment on its taxable income will be allocated to the partners according to their share of partnership income of the Second Period, and would be treated as a tax credit to the partner. If there is any excess tax credit after the deduction of share of income tax paid by the partnership in computing the income tax payable by the partner, no refund shall be made but such excess will be permitted to be carried forward as a tax credit by the partner.

You may click on the link below to access the notice published by the DIR:

http://www.ird.gov.lk/en/Lists/Latest%20News%20%20Notices/Attachments/244/PIT06052020_E.pdf

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INLAND REVENUE DEPARTMENT

Notice to the Companies

Computation of Income Tax Payable and Payments 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, a resident or non-resident company shall compute the income tax payable (subject to the provisions of the IRA) following the instructions set out below for the Year of Assessment 2019/2020.

1. Company shall compute the assessable income and taxable income for the year of assessment without separating in to 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, second period respectively) in accordance with the provisions of the IRA and proposed changes announced by the Commissioner General of Inland Revenue in his notice PN/IT/2020-03 (Revised) dated 08.04.2020.
2. If the company received or derived any amounts which are exempted as per the proposed changes for the Second Period, 1/4th of the total amounts received or derived during the year from such source can be excluded as exempted amount in arriving the taxable income for the year of assessment. Actual dividend income received or derived during the First Period shall also be excluded as a final withholding payment. The expenditures and related deductions which would be deductible from such exempted amounts or from final withholding payments and disallowable amounts under Section 10(1)(b)(iv) of the IRA, should be prorated based on the time (3/4th for the First Period and 1/4th for the Second Period).
3. Taxable income computed as above instructions is required to apportion over the two periods by applying the pro-rata basis based on the time (3/4th for the First Period, and 1/4th for the Second Period). However, actual dividend income received or derived during the Second Period is not required to apportion over the two periods but should be recognized for the taxable income of the Second Period.
4. Income tax payable by the company for its taxable income shall be separately calculated for two periods by applying the relevant rates of income tax. Accordingly, Income tax rates as per the of the

IRA (before the proposed amendments) should be applied for the First Period and income tax rates set out in proposed changes and announced by the Commissioner General of Inland Revenue in his notice PN/IT/2020-03 (Revised) should be applied for the Second Period.

5. In applying the special tax rates set out in item (b), (c), (e), (f) and (g) of subparagraph 2 of Paragraph 4 of the First Schedule of the IRA for the First Period, required base of “predominant” shall be calculated based on the actual gross income of the First Period (“predominantly” means 80% or more calculated based on gross income of the First Period).
6. Subject to the provisions of the IRA, foreign tax credit, non-final withholding tax credit and other tax credits granted or allowed can be deducted from the amount of total tax payable to calculate the income tax payable by the company for the year of assessment 2019/2020.
7. If any company received the approval to prepare its financial statements for twelve months period other than from April 01st to March 31st, above instructions can appropriately be applied for the relevant two periods of the year of assessment as for the period prior to 01.01.2020 (First Period) and for the period on or after 01.01.2020 (Second Period).
8. The company may file a revised estimate (Revised Statement of Estimated Income Tax Payable) as provided in Section 91(5) of the IRA. Further, fourth and final quarter instalment shall be paid in line with Section 90 of the IRA on or before the 15th date of May 2020.
9. Illustrations are 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:

ABC Company is manufacturing rubber products to local and foreign market. Details as per the financial statements prepared for the year ended 31st March 2020 are as follows. The company has submitted Statement of Estimated Tax (SET) payable on 15.08.2019 and estimated tax payable for the year was Rs. 50,000,000.

<u>Turnover</u>	<u>Rs. '000</u>	<u>Rs. '000</u>
Sales to Local Market	800,000	
Sales to Foreign Market (payment received in Foreign Currency to bank)	<u>300,000</u>	<u>1,100,000</u>
Less: Cost of Sales		<u>(600,000)</u>
Gross Profit		500,000
Expenditure and Other Deductions		(200,600)
<u>Other Operating Income</u>		
Interest	1,000	
Dividend (Received from company A)	4,000	
(Company A declared relevant dividend from its business profit)		
Foreign Consultancy Fees (foreign currency received to the bank)	<u>10,000</u>	<u>15,000</u>
Profit for the Period		<u>314,400</u>
<u>Other information</u>	<u>(Rs. '000)</u>	
ESC Paid	3,010	
Income tax paid	38,000	
No expenditure incurred on interest or dividend income		
	<u>First Period</u>	<u>Second Period</u>
	<u>Rs. '000</u>	<u>Rs. '000</u>
Sales to Local Market	500,000	300,000
Sales to Foreign Market	100,000	200,000
Dividend	3,000	1,000
Donation to approved charity	400	200
Withholding tax deducted on interest	20	
Withholding tax on dividend	420	

Computation of Income Tax Payable by the ABC company for the year of assessment 2019/2020

Profit for the Period		<u>Rs. '000</u>
		314,400
Less:		
<u>Exempted Amounts</u>		
Foreign Consultancy Fees (10,000 X 1/4)	2,500	
<u>Final Withholding Payments</u>		
Dividend	3,000	
<u>Investment Income</u>		
Interest and (balance) Dividend (1,000+1,000)	2,000	<u>(7,500)</u>
		306,900
Add: Disallowable Expenses		
Donations	600	
Expenditure on exempt amounts and final withholding payments		
On foreign Consultancy Fees (applied gross revenue basis)		
=(((200,600-600)/1,110,000) X 10,000) X 1/4	<u>= 450</u>	<u>1,050</u>
Assessable Income from business		307,950
Interest	1,000	
Dividend	1,000	
Assessable Income from investment		<u>2,000</u>
Total Assessable Income		309,950

Less: Qualifying Payment		
Donation to Approved Charity = 600		
1/5 th of T.I.	= 51,658	
Allowed limit	= 500	(500)
Taxable Income		<u>309,450</u>

<u>Taxable Income</u>	<u>First Period</u> Rs. '000	<u>Second Period</u> Rs. '000
Total Taxable Income other than dividend (3/4 th and 1/4 th)	231,337	77,113
Dividend	-	1,000
<u>Income Categories</u>		
Dividend Income	-	1,000
Interest (3/4 th and 1/4 th)	750	250
Other Business Income	230,587	76,863

<u>Tax Computation</u>	Rs. '000
On taxable income of the First Period (note 1) = 231,337 X 28%	= 64,774
On taxable income from sales to foreign market=(76,863/500,000) X 200,000 = 30,745X 14%	= 4,304
On taxable income from manufacturing business= (76,863/500,000) X 300,000 =46,118 X 18%	= 8,301
On dividend income = 1,000 X 14%	= 140
On balance taxable (Interest) income = 250 X 24%	= 60
Total amount of income tax payable (other than tax on final WH payment)	<u>=77,579</u>

Company ABC wish to furnish a revised estimate return for the amount of tax payable. Accordingly, income tax payable as fourth and final installment is as follows.

Estimated Tax Payable – (Tax paid during the year + Withholding tax)

1

= 77,579-(38,000+20) 39,559

1

Less: Economic Service Charges Paid	(3,010)
Income Tax Payable on or before 15th May 2020	<u>= 36,549</u>

Note 1

Export of goods and services during the first period = 102,000
Gross Income for the first period = 602,400
Percentage = 17%

ABC Company is not predominantly conducting a business of exporting goods and services during the first period.



INLAND REVENUE DEPARTMENT

Notice to the Individuals

Instructions on the 4th Installment Payment for the Year of Assessment 2019/2020

As instructed by the Ministry of Finance and in line with the notice published by the Inland Revenue Department (IRD), several changes have been proposed to be made to the Inland Revenue Act, No. 24 of 2017 (IRA) with effect from January 01, 2020.

Consequently, requirement for deduction of Withholding Tax (WHT) including PAYE is removed with effect from 01.01.2020. However, the income tax liability on employment income and investment income remains the same in the hands of employees and other taxpayers.

As such, it is the responsibility of any resident individual, to submit a “Statement of Estimated Income Tax Payable (SET)” or a revised SET, if a SET is already submitted, for the year of assessment 2019/2020, considering the interest income and dividend income as part of the assessable income and to make the income tax installment payment of 4th quarter on or before May 15, 2020 on taxable income (whose income has not been subjected to WHT and PAYE).

Taxable income of above resident individuals should be calculated as follows.

1. Apportionment of Assessable Income

An individual should apportion the employment income, business income and investment income for the period from 01.04.2019 to 31.12.2019 (hereinafter referred to as the “First Period”) and for the period from 01.01.2020 to 31.03.2020 (hereinafter referred to as the “Second Period”).

In arriving at the taxable income, following reliefs and qualifying payments are entitled to be deducted.

2. Reliefs

An individual is entitled to deduct following reliefs provided under paragraph 2 of the Fifth Schedule of the IRA.

- a) Relief granted under subparagraph (a) of paragraph 2 of fifth schedule (Personal relief) to the IRA, Rs. 1,125,000 $[(500,000 \times 9/12) + (3,000,000 \times 3/12)]$ for the year of assessment up to the aggregate assessable income (except gains from the realization of investment assets) of the year of assessment 2019/2020
- b) Relief granted under subparagraph (b) of paragraph 2 of the Fifth Schedule to the IRA (Employment Relief) Rs. 525,000 up to December 31, 2019 up to the total of the individual's employment income for the year of assessment 2019/2020
- c) Relief granted under subparagraph (c) of paragraph 2 of the Fifth Schedule (Rent Relief) to the IRA – 25% of the total rental income for the year of assessment 2019/2020
- d) If an individual is a senior citizen, relief granted under subparagraph (d) of paragraph 2 of the Fifth Schedule (Senior Citizen Interest Relief) to the IRA -Rs. 1,500,000 for each year of assessment, up to the total of the individuals interest income from financial institutions derived and deemed as derived for the period up to 31 December 2019
- e) If the resident individual or partner of a partnership earned income from foreign currency and qualified for the relief under subparagraph (e) of paragraph 2 of the Fifth Schedule (Foreign Service relief) to the IRA, Rs. 15,000,000 for each year of assessment, up to the total of such income for the period up to 31 December 2019
- f) Relief that is proposed [as announced in the Notice No PN/IT/2020 –03 (Revised) dated 06.04.2020] to be granted under subparagraph (f) of paragraph 2 of the Fifth Schedule (Expenditure Relief) to the IRA - Rs. 300,000 up to the total sum on following specific expenditure incurred for the Second Period
 - Health expenditure including the contributions to medical insurance
 - Education expenditure incurred locally for such individual or on behalf of his children
 - Interest paid on housing loans
 - Contribution made to an approved pension scheme
 - Expenditure incurred for the purchase of equity or securities

Note: Above aggregate reliefs are deductible in arriving at the taxable income of an individual who is resident in Sri Lanka for a year of assessment subject to the provisions of IRA. However, non-resident individuals but citizens in Sri Lanka can deduct the personal relief mentioned under above paragraph a) in arriving at the taxable income of such individual.

3. Qualifying payments

- Donations made in money to an approved charitable institution - subject to the amount of one fourth of the total assessable income (one third of the taxable income) or Rs. 75,000 or amount donated, whichever is less. and
- Donations made in money or otherwise to the Government or any specified institutions in the fifth schedule to the IRA
- Any un-deducted balance of any qualifying payment brought forward from the previous year of assessment according to the Inland Revenue Act, No. 10 of 2006

Will be a qualifying payment to an individual

4. Calculation of Income Tax Payable

A. Apportioning the assessable income

- a) Employment income shall be the actual basis for the First Period and the Second Period.
(Gross Remuneration in accordance with the T 10 form)
- b) Interest income shall be
 - (i) the actual amount for respective periods, or
 - (ii) apportioned on pro-rata basis as 3/4th of total interest income to the First Period and 1/4th of total interest income to the Second Period
 - (iii) In the case of a Senior Citizen, if any interest income is received or the apportioned amount under item (ii) in the First Period is less than Rs. 1,500,000, then the interest amount to be allocated to the First Period shall be the amount (hereinafter referred to as “X”) as calculated below equation

$$X = 1,500,000 - \text{Actual interest income received in the First Period}$$

- c) Dividend, rent and other investment income on actual basis
- d) Business income should be apportioned on pro-rata basis as 3/4th of total business income to the First Period and 1/4th of total business income to the Second Period

B. In arriving at the taxable income;

- Employment relief shall be deducted from the employment income relevant to the First Period and if there is any un-deducted relief such part can be deducted from the employment income relevant to the Second Period.
- Interest relief on interest derived by a senior citizen Rs, 1,500,000 can be deducted from the First Period
- Foreign Services relief on foreign service income Rs. 15,000,000 can be deducted from the First Period
- Rent relief of 25% on total rent income can be deducted from the relevant rent income for each Period

-
- Expenditure relief can be deducted only against the assessable income relevant to the Second Period
 - Personal relief of Rs. 1,125,000 is entitled to be deducted for the year of assessment 2019/2020. However, Rs. 375,000 and Rs. 750,000 relevant to the First Period and the Second Period respectively shall be deducted from the relevant part of assessable income. If there is any un-deducted relief such part can be deducted from the balance assessable income of the other Period.

However,

- Un-deducted Personal relief relevant to the Second Period shall not be deducted from the employment income in which PAYE tax has already been deducted.
 - If the relief is not deductible due to the income is considered as final withholding payment during the First Period, or income for the Second Period is considered an exempt, then the non-deductible relief must be ignored.
- C. In arriving at the taxable income, qualifying payments can be deducted from any period. Total assessable income can be calculated by aggregating the assessable income after deducting the entitled reliefs over the two periods
- D. Apply the income tax rates separately as for the First Period and for the Second Period
- E. Income tax payable amount shall be calculated by applying the applicable tax rates (Paragraph 6) for the relevant two periods.

5. Refunds and Payable Amounts due to the Deduction of Aggregate Reliefs

Although the tax for the First Period has been correctly calculated in accordance with the prevailing law, any refundable amount or payable amount that would be arisen for the First Period due to the deduction of aggregate reliefs Rs 1,650,000 (525,000 + 1,125,000) for the whole year of assessment, will be disregarded.

6. Applicable Tax Rates to Resident and Non-Resident individual

A. Normal rates

- **First Period**

Taxable Income	Tax Rate
On the First 450,000	4%
On the Next 450,000	8%
On the Next 450,000	12%
On the Next 450,000	16%
On the Next 450,000	20%
On the Balance	24%

- **Second Period**

Taxable Income	Tax Rate
On the First 750,000	6%
On the Next 750,000	12%
On the Balance	18%

B. Special rates

- **For the Year of Assessment 2019/2020**

Tax on income from a business consisting of betting and gaming, manufacture and sale or import and sale of liquor or tobacco product - 40%

7. Registration for Income Tax

Those who have not registered for income tax and not obtained a TIN are required to register with IRD for this purpose. You may simply get your TIN by accessing via: <https://eservices.ird.gov.lk/Registration/TINRegistration/ShowRequestHeader>, the web portal of the IRD.

Note: Relevant illustrations are 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



Illustrations

1. In the case where a resident individual receives only employment income

Illustration 1

Mr. A is CFO of company Q. His employment income for the First Period is 2,385,000 and for the Second Period is 1,115,000. PAYE tax has been deducted up to 31 December 2019 Rs.129,600. Expenses incurred for education locally during the First Period is Rs. 495,000 and for the Second Period is Rs. 200,000.

Calculation of Income tax liability

	First Period (Rs)		Second Period (Rs)	
Employment income		2,385,000		1,115,000
Assessable income		2,385,000		1,115,000
Deductions				
- Employment relief	525,000			
- Expenditure relief			200,000	
- Personal relief	375,000	(900,000)	750,000	(950,000)
Taxable income		1,485,000		165,000
Payable tax	450,000@4%	18,000	165,000 @ 6%	9,900
	450,000@8%	36,000		
	450,000@12%	54,000		
	135,000@16%	21,600		
		129,600		

$$\text{Payable tax for the Y/A 2019/2020} = 129,600 + 9,900$$

$$\begin{aligned} \text{Payable tax for the 4}^{\text{th}} \text{ instalment} &= \frac{A - C}{B} = \frac{139,500 - 129,600}{1} \\ &= \text{Rs. 9,900} \end{aligned}$$

A = Estimated tax payable

B = Number of instalments remaining

C = Tax paid and WHT deducted prior to the due date for payment of the instalment

Note:

1. When deducting the PAYE tax, employment relief of Rs. 525,000 and personnel relief of Rs. 375,000 have been deducted. Therefore, in calculating the taxable income of the year of assessment 2019/2020, such reliefs should be deducted from the employment income relevant to the First Period. If there is any un-deducted relief, such part can be deducted from the income relevant to the Second Period.
2. Expenditure relief is the aggregate of following payments made by a resident individual and can be deducted only up to Rs 300,000 (1,200,000 /4) in the Second Period
 - Health expenditure including the contributions to medical insurance
 - Education expenditure incurred locally for such individual or on behalf of his children
 - Interest paid on housing loans
 - Contribution made to an approved pension scheme
 - Expenditure incurred for the purchase of equity or securities

Illustration 2

Mr. B is an Assistant Manager of company S. His employment income for the First Period is Rs. 1,260,000 and for the Second Period is Rs. 450,000. PAYE tax has been deducted up to December 31, 2019 Rs.14,400. Expenses incurred for education locally during the Second Period is Rs. 100,000.

Calculation of Income tax liability

	First Period (Rs)		Second Period (Rs)	
Employment income		<u>1,260,000</u>		<u>450,000</u>
Assessable income		1,260,000		450,000
Deductions				
- Employment relief	525,000			
- Expenditure relief			100,000	
- Personal relief	<u>375,000</u>	<u>(900,000)</u>	<u>750,000</u>	<u>(850,000)</u>
Taxable income		<u>360,000</u>		<u>Nil</u>
Payable tax	360,000 @ 4%	14,400		Nil

Payable tax for the Y/A 2019/2020 = 14,400

Payable tax for the 4th instalment = $\frac{A - C}{B} = \frac{14,400 - 14,400}{0} = \text{No payable tax}$

Note:

PAYE has already been deducted for the First Period in accordance with the prevailing law. Total remuneration for the Second Period does not exceed Rs. 750,000. Hence with effect from January 1st, 2020, his employment income is not liable for income tax. According to Paragraph 4(B) any un deducted Personnel relief relevant to Second Period shall not be deducted from the employment income of the First Period in which PAYE tax has already been deducted. In addition, as per Paragraph 5, if income tax has been correctly calculated in accordance with the prevailing law, any refundable amount or payable amount that would be arisen due to the deduction of aggregate reliefs Rs 1,650,000 (525,000 + 1,125,000), will be disregarded. Therefore, calculation of 4th installment is not required.

2. Resident individual (other than senior citizens) may receive interest income and/or dividend income along with the employment income during the year of assessment 2019/2020.

Therefore, such employee can apportion the interest income according to one of the following 2 options.

Option 1 - Actual amount for respective periods

Illustration 3

Let's recall the illustration 1. In addition to the employment income, Mr. A received following income during the year of assessment 2019/2020

	First Period (Rs)	Second Period (Rs)
Interest income	1,600,000	900,000
Dividend income	150,000	100,000
Rent income	450,000	150,000

Calculation of Income tax liability

	First Period (Rs.)		Second Period (Rs.)	
Employment income		2,385,000		1,115,000
Investment income				
• Interest income	1,600,000			900,000
Final withholding payment	<u>(1,600,000)</u>			
Final WHT 5% (deducted)	<u>80,000</u>			
• Dividend Income	150,000			100,000
Final Withholding payment	<u>(150,000)</u>			
Final WHT 14% (deducted)	<u>21,000</u>			
• Rent income		<u>450,000</u>		<u>150,000</u>
Assessable income		2,835,000		2,265,000

Deductions				
- Employment relief	525,000		-	
- Rent relief	112,500		37,500	
- Expenditure relief			200,000	
- Personal relief	<u>375,000</u>	(1,012,500)	<u>750,000</u>	(987,500)
Taxable income		<u>1,822,500</u>		<u>1,277,500</u>
Payable tax	450,000@4%	18,000	750,000 @ 6%	45,000
	450,000@8%	36,000	527,500 @ 12%	<u>63,300</u>
	450,000@12%	54,000		<u>108,300</u>
	450,000@16%	72,000		
	22,500@20%	<u>4,500</u>		
		<u>184,500</u>		

Payable tax for the Y/A 2019/2020 = 184,500 + 108,300 = 292,800

Payable tax for the 4th instalment

$$\frac{A - C}{B} = \frac{292,800 - 129,600}{1} = \underline{\text{Rs. 163,200}}$$

Option 2 - Pro-rata basis as 3/4th of total interest income to the First Period and 1/4th to the Second Period

Illustration 4

Let's recall the illustration 1. In addition to the employment income, Mr. A received following income during the year of assessment 2019/2020. As well he donated Rs. 20,000 to cancer hospital during the year of assessment.

	First Period (Rs)	Second Period (Rs)
Interest income (matured in the Second Period)		3,600,000
Dividend income	150,000	100,000
Rent income	450,000	150,000

Calculation of Income tax liability

	First Period (Rs)		Second Period (Rs)	
Employment income		2,385,000		1,115,000
Investment income				
• Interest income	2,700,000		900,000	
Final withholding payment	<u>(2,700,000)</u>			
Final WHT 5% (not deducted)	<u>135,000</u>			
• Dividend Income	150,000		100,000	
Final Withholding payment	<u>(150,000)</u>			
Final WHT 14% (deducted)	<u>21,000</u>			
• Rent income		<u>450,000</u>		<u>150,000</u>
Assessable income		2,835,000		2,265,000
Deductions				
- Employment relief	525,000			
- Rent relief	112,500		37,500	
- Expenditure relief			200,000	
- Personal relief	<u>375,000</u>	<u>(1,012,500)</u>	<u>750,000</u>	<u>(987,500)</u>
		1,822,500		1,277,500
Deduction – QP		<u>(20,000)</u>		-
Taxable income		<u>1,802,500</u>		<u>1,277,500</u>
Payable tax	450,000@4%	18,000	750,000 @6%	45,000
	450,000@8%	36,000	527,500@12%	= <u>63,300</u>
	450,000@12%	54,000		<u>108,300</u>
	450,000@16%	72,000		
	2,500@20%	<u>500</u>		
		<u>180,500</u>		

Payable tax for the Y/A 2019/2020 = 180,500 + 108,300 = 288,800

Payable tax for the 4th instalment

$$\frac{A - C}{B} = \frac{288,800 - 129,600}{1}$$

$$= \text{Rs. } 159,200 + \text{Final WHT on interest } 135,000 \text{ (not deducted)}$$

$$= \text{Rs. } 294,200$$

Note: Interest income apportioned to the First Period (Rs. 2,700,000) is deemed as final withholding payment. Hence 5% tax should be paid on such final withholding payment along with the 4th instalment.

3. Interest income derived by a senior citizen

Resident senior citizen who derives interest income from financial institution during the year can be apportioned such interest income to the First Period and the Second Period according to one of the following options.

1. Actual amount for respective periods
2. Pro-rata basis as 3/4th of total interest income to the First Period and 1/4th of total interest income to the Second Period; or
3. If the interest income is received or the apportioned amount under item (ii) in the First Period is less than Rs. 1,500,000, then the interest amount to be allocated to the First Period shall be the amount (hereinafter referred to as “X”) as calculated below equation

$$X = 1,500,000 - \text{Actual interest income received in the First Period}$$

Option 1 - Actual amount for respective periods

Illustration 5

Mr. A is a senior citizen. Interest received from financial institutions during the First Periods and the Second Period is Rs. 1,600,000 and Rs. 900,000 respectively.

Calculation of Income tax liability

	First Period (Rs.)		Second Period (Rs.)	
Interest income	1,600,000			900,000
- Relief- interest	(1,500,000)			
Final withholding payment	100,000			
5% WHT (deducted)	<u>5,000</u>			
- Personal relief	NA			<u>(750,000)</u>
Taxable income				<u>150,000</u>
Payable Tax			150,000 @ 6%	9,000

Payable tax for the 4th installment = Rs. 9,000

Note: personal relief of Rs. 375,000 is not entitled to the First Period since only income relevant to such Period is considered as final withholding payment. Hence such non-deductible relief must be ignored

Option 2- Pro-rata basis as 3/4th of total interest income to First Period and 1/4th of total interest income to the Second Period

Illustration 6

Mr. Perera is a senior citizen. Interest received from financial institutions during the Second Period is Rs. 5,500,000

Calculation of Income tax liability

	First Period (Rs.)		Second Period (Rs.)	
Interest income		<u>Nil</u>		<u>5,500,000</u>
Application of option 2				
Apportion basis		9/12		3/12
Interest Income		4,125,000		1,375,000
Deduction				
- Deduction- Interest relief		<u>(1,500,000)</u>		
Final withholding payment		2,625,000		
5% WHT (not deducted)		<u>131,250</u>		
Deduction				
- Personal relief		NA		<u>(750,000)</u>
Taxable income				<u>625,000</u>
Payable tax			625,000 @ 6%	37,500

$$\begin{aligned} \text{Payable tax for the 4th installment} &= 37,500 + 131,250 \text{ (Tax on final withholding payment @5\%)} \\ &= \underline{\text{Rs. 168,750}} \end{aligned}$$

Note:

Personal relief of Rs. 375,000 is not entitled to First Period since only income relevant to such Period is considered as final withholding payment. Hence non-deductible relief must be ignored.

Option 3- If the interest income is received or the apportioned amount under item (ii) in the First Period is less than Rs. 1,500,000, then the interest amount to be allocated to the First Period shall be the amount (hereinafter referred to as “X”) as calculated below equation

$$X = 1,500,000 - \text{Actual interest income received in the First Period}$$

Illustration 7

Mr. A is a senior citizen. Interest received from financial institutions during the First Period is Rs. 500,000 and for the Second Period is Rs. 1,400,000.

Calculation of Income tax liability

	First Period (Rs.)		Second Period (Rs.)	
Interest income	<u>500,000</u>		<u>1,400,000</u>	
Application of option 3				
Interest Income	500,000		1,400,000	
Apportioned interest of Second Period	<u>1,000,000</u>		<u>(1,000,000)</u>	
Apportioned interest income	1,500,000			400,000
Deductions -				
- Interest relief	(1,500,000)			-
- Personal relief	<u>NA</u>			<u>(750,000)</u>
Taxable income	NIL	-		NIL

Payable tax for 4th installment - No

Note: Personal relief of Rs. 375,000 is not entitled to First Period since only income relevant to such Period is considered as final withholding payment. Hence non-deductible relief must be ignored.

4. Dividend income derived by the individual

Such individual shall calculate the taxable income for the Second Period by considering the actual income received during the period.

Illustration 8

Mr. Perera received dividend income during the First Period and the Second Period Rs. 900,000 and Rs. 1,100,000 respectively.

Calculation of Income tax liability

	First Period (Rs.)		Second Period (Rs.)	
Dividend income		900,000		1,100,000
Final withholding payment		<u>900,000</u>		
Final WHT 14% (Deducted)		<u>126,000</u>		
Deduction				
- Personal relief		NA		<u>(750,000)</u>
Taxable income				<u>350,000</u>
Payable tax			350,000 @ 6%	21,000

Payable tax for the 4th instalment = Rs. 21,000

Note: Personal relief of Rs. 375,000 is not entitled to First Period since only income relevant to such period is considered as final withholding payment. Hence non-deductible relief must be ignored.

Illustration 9

Mr. A is a senior citizen. After his retirement he joined to XY PLC as a Director in November 2019. He received Rs. 200,000 per month as director fee. He derived Interest from a bank during the month of January 2020 is Rs. 1,920,000 and business income is 2,400,000 for the year of assessment 2019/2020. He incurred medical expenses Rs 100,000 for the Second Period. As well he donated Rs. 25,000 to Apeksha Cancer Hospital during the First Period of the Y/A 2019/2020. Installment payments made for prior 3 quarters is Rs. 40,000.

Mr. A wish to apply option 3 to allocate the interest income.

	First Period (Rs.)	Second Period (Rs.)
Employment income	400,000	600,000
Interest income	Nil	1,920,000
Business Income	9/12	3/12

Calculation of Income tax liability

	First Period (Rs.)		Second Period (Rs.)	
Employment income		400,000		600,000
Interest Income		1,500,000		420,000
Business income		<u>1,800,000</u>		<u>600,000</u>
Assessable income		3,700,000		1,620,000
Deductions				
- Employment relief	400,000		125,000	
- Interest relief	1,500,000		-	
- Expenditure relief	-		100,000	
- Personal relief	<u>375,000</u>	<u>(2,275,000)</u>	<u>750,000</u>	<u>(975,000)</u>
		1,425,000		645,000
QP - Donations		<u>(25,000)</u>		-
Taxable income		<u>1,400,000</u>		<u>645,000</u>
Payable tax –	450,000 @ 4%	18,000	645,000 @ 6%	38,700
	450,000 @ 8%	36,000		
	450,000 @ 12%	54,000		
	50,000 @ 16%	<u>8,000</u>		
		<u>116,000</u>		<u>38,700</u>

Total payable tax = 116,000 + 38,700 = Rs.154,700

Payable tax for the 4th instalment = $\frac{A - C}{B} = \frac{154,700 - 40,000}{1} = \underline{\underline{\text{Rs. } 114,700}}$



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.