

Inland Revenue Amendment Bill
2022



Dear Valued Client,

As you may be aware, the Inland Revenue (Amendment) Bill issued on October 11, 2022, contains some historical changes, especially with regard to the income tax rate structure under the Inland Revenue Act, No. 24 of 2017 (as amended). As we believe that most of these changes are important to our clients, we have prepared a comprehensive analysis enabling our clients to understand all the important amendments. We highly recommend you to peruse the content of this document carefully because we believe that the changes mentioned in the Bill are inevitably important to any corporate or individual taxpayer in the country.

You may kindly note that the Inland Revenue (Amendment) Bill is subject to the formal parliamentary approval process. Further, this document is a general circulation, therefore, you may contact us if you have any specific concerns.

Dasanayaka Associates

Chartered Accountants

12/10/2022

Individual Income Tax

Amending area	Prevailing position	Effective Date	New Position
Personal relief (Tax-free allowance)	Rs. 3,000,000 for each Y/A	1/10/2022	Rs. 1,200,000 for each Y/A As the change occurs during the Y/A 2022/23, personal relief has been granted in proportion to the number of months.
Expenditure relief of Rs. 1,200,000	<p>In the case of a resident individual, following expenditure up to a total sum of Rs. 1,200,000, incurred for a year of assessment.</p> <ul style="list-style-type: none"> i. health expenditure including contributions to medical insurance; ii. vocational education or other educational expenditure incurred locally by such individual or on behalf of such individual's children; iii. interest paid on housing loans; iv. contributions made to any local pension scheme, other than for a scheme under the employer or on behalf of the employer, by an employee; v. expenditure incurred for the purchase of shares or any other financial instrument listed in the Colombo Stock Exchange and licensed by the Securities and Exchange Commission of Sri Lanka or treasury bonds under the Registered Stocks and Securities Ordinance (Chapter 420) or treasury bills under the Local Treasury Bills Ordinance (Chapter 417); 	1/10/2022	Expenditure relief will be removed.

Individual Income Tax rates (other than special rates provided)	<table border="1"> <thead> <tr> <th>Taxable Income</th> <th>Rate</th> </tr> </thead> <tbody> <tr> <td>First 3,000,000</td> <td>@ 6%</td> </tr> <tr> <td>Next 3,000,000</td> <td>@ 12%</td> </tr> <tr> <td>Balance</td> <td>@ 18%</td> </tr> </tbody> </table>	Taxable Income	Rate	First 3,000,000	@ 6%	Next 3,000,000	@ 12%	Balance	@ 18%	1/10/2022	<table border="1"> <thead> <tr> <th>Taxable Income</th> <th>Rate</th> </tr> </thead> <tbody> <tr> <td>First 500,000</td> <td>@ 6%</td> </tr> <tr> <td>Next 500,000</td> <td>@ 12%</td> </tr> <tr> <td>Next 500,000</td> <td>@ 18%</td> </tr> <tr> <td>Next 500,000</td> <td>@ 24%</td> </tr> <tr> <td>Next 500,000</td> <td>@ 30%</td> </tr> <tr> <td>Balance</td> <td>@ 36%</td> </tr> </tbody> </table> <p>As there are two tax rates applicable during the Y/A 2022/23, the above slabs have been given in proportion to the number of months.</p>	Taxable Income	Rate	First 500,000	@ 6%	Next 500,000	@ 12%	Next 500,000	@ 18%	Next 500,000	@ 24%	Next 500,000	@ 30%	Balance	@ 36%
Taxable Income	Rate																								
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Concessionary rates applicable for Individuals	<p>The concessionary maximum rate of 14% is available to individuals on the following gains and profits.</p> <ul style="list-style-type: none"> consideration received in respect of gems and jewellery. amounts received on the supply of electricity to national grid generated by using renewable energy resources. 	1/10/2022	<p>These concessionary rates have been removed.</p>																						
Exclusions from employment income	<p>N/A</p>	1/4/2022	<p>any retirement payments received at the time of the retirement from employment, subject to the condition that the respective retirement contributions have already been considered for income tax purposes and the employee has paid tax on such contributions in a previous year of assessment.</p>																						

APIT, AIT & WHT

Amending area	Prevailing position	Effective Date	New Position
Deduction of APIT	<p>An employer shall deduct an Advance Personal Income Tax on any payment which falls under section 5 made to his employee, if such employee –</p> <p>(a) is a non-resident or non-citizen of Sri Lanka; or (b) is a resident and citizen of Sri Lanka who gives his consent, as specified by the Commissioner-General.</p> <p><i>(The deduction is not mandatory for resident and citizens of Sri Lanka)</i></p>	<p>From the date of commencement of the amendment Act.</p>	<p>An employer shall deduct the Advance Personal Income Tax on any payment which falls under section 5 made to his employee, as specified by the Commissioner General.</p> <p><i>(The deduction is mandatory)</i></p>
Deduction of AIT	<p>A taxpayer who is resident in Sri Lanka may make a request to the withholding agent to deduct Advance Income Tax from the payment of dividend, interest, discount, charge, natural resource payment, rent, royalty, premium or similar periodic payment that the payment or allocation has a source in Sri Lanka. On the receipt of such request, a withholding agent shall deduct advance income tax as specified by the Commissioner-General.</p> <p><i>(The deduction is not mandatory)</i></p>	<p>From the date of commencement of the amendment Act.</p>	<p>A person shall deduct Advance Income Tax from the payment of dividend, interest, discount, charge, natural resource payment, rent, royalty or premium which has a source in Sri Lanka.</p> <p><i>(The deduction is mandatory)</i></p> <ul style="list-style-type: none"> ▪ rent payments made to a resident person where the aggregate payment does not exceed Rs. 100,000 per month – 0%; ▪ interest or discount paid – 5%; ▪ rent payments made to a resident person where the aggregate payment

			<p>exceeds or is equal to Rs. 100,000 per month – 10% on full amount;</p> <ul style="list-style-type: none"> ▪ all other payments except dividend – 14%; and ▪ dividend paid-15%.”; (dividends paid by a resident company shall be considered as a final withholding payment.)
<p>WHT on service fees</p>	<p>At present, there is no withholding tax on service fee payments to resident individuals.</p>	<p>From the date of commencement of the amendment Act.</p>	<p>A person shall withhold tax at the rate of 5% of the payment, where such person pays a service fee with a source in Sri Lanka to a resident individual who is not an employee of the payer –</p> <ul style="list-style-type: none"> ▪ for teaching, lecturing, examining, invigilating or supervising an examination; ▪ as a commission or brokerage to a resident insurance, sales or canvassing agent; or ▪ for services provided by such individual in the capacity of independent service provider such as doctor, engineer, accountant, lawyer, software developer, researcher, academic or any individual service provider as may be prescribed by regulation: <p>However, the deduction is not applicable to a service payment which does not exceed Rs.100,000 per month.</p>

Corporate Income Tax Rates

Amending area	Prevailing position	Effective Date	New Position
Tax rate applicable for trusts	18%	1/10/2022	30%
Tax rate applicable for unit trusts and mutual funds	24%	1/10/2022	30%
Tax rate applicable for NGOs	24%	1/10/2022	30%
Standard tax rate applicable on companies	24%	1/10/2022	30%
Capital Gains Tax applicable to the companies	10%	1/10/2022	30%
Concessionary rates applicable to companies	<p>Currently, the companies are eligible for the following concessionary rates / reductions,</p> <ul style="list-style-type: none"> ▪ gains and profits from the business of a Small and Medium Enterprise - 14%; ▪ gains and profits from conducting a business of sale of goods or merchandise including export of goods, where the payment for such sale or export is received in foreign currency and remitted through a bank to Sri Lanka-14%; 	1/10/2022	All the listed concessionary rates will be removed.

- gains and profits of a specified undertaking - 14%;
- gains and profits from providing educational services-14%;
- gains and profits of an undertaking for the promotion of tourism-14%;
- gains and profits from providing construction services-14%;
- gains and profits from agro processing-14%;
- gains and profits from providing health care services-14%;
- gains and profits from dividends received from a resident company-14%;
- gains and profits derived by any export company which is registered with the Board of Investments from the consideration received in respect of health protective equipment and similar products supplied to the Ministry of Health, Department of Health Services, Sri Lanka Army, Sri Lanka Navy, Sri Lanka Airforce, Sri Lanka Police and COVID Center-14%;
- gains and profits of any company which lists its shares on or after January, 1 2021, but prior to December 31, 2021, in the CSE licensed by the SEC, for three years of assessment commencing from April 1, 2022 -14%;
- gains and profits from the consideration received in respect of gems and jewellery – 14%;

	<ul style="list-style-type: none"> ▪ gains and profits from the supply of electricity to national grid generated using renewable energy resources by a company – 14%; ▪ gains and profits from manufacturing-18%; 										
Reduction of tax payable by MNCs	<p>Such part of income tax payable on gains and profits from dividends by any multi-national company shall be reduced as follows,</p> <table border="1" data-bbox="472 649 955 803"> <thead> <tr> <th>Year of Assessment</th> <th>Reduction</th> </tr> </thead> <tbody> <tr> <td>2021/2022</td> <td>25%</td> </tr> <tr> <td>2022/2023</td> <td>50%</td> </tr> <tr> <td>2023/2024</td> <td>50%</td> </tr> </tbody> </table>	Year of Assessment	Reduction	2021/2022	25%	2022/2023	50%	2023/2024	50%	1/10/2022	This reduction will be removed.
Year of Assessment	Reduction										
2021/2022	25%										
2022/2023	50%										
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Reduction of tax payable on agro-processing /manufacturing	<p>Where a person utilizes agro farming produce produced by him for his agro processing or manufacturing business activity in Sri Lanka, such portion of the tax payable in respect of such agro processing or manufacturing business activity that corresponds to the proportion of the farming produce produced by him to the total farming produce utilized in such agro processing or manufacturing, shall be reduced by 25%, for the period of five years of assessment commencing on April 1, 2021.</p>	1/4/2023	This reduction will be removed.								

Exemptions

Amending area	Prevailing position	Effective Date	New Position
Removal of exemptions	<p>Currently, the Third Schedule to the IR Act, provides for the following exemptions,</p> <ul style="list-style-type: none"> ▪ a gain made by a person from the realisation of land or building which was sold, exchanged or transferred to a real estate investment trust listed in the Colombo Stock Exchange and licensed by the Securities and Exchange Commission of Sri Lanka ▪ dividends and gains on the realisation of units or amounts derived as gains from the realisation of capital assets of a business or investment by a unit holder, from real estate investment trust listed in the Colombo Stock Exchange and licensed by the Securities and Exchange Commission of Sri Lanka. ▪ providing information technology and enabled services. ▪ any vocational education programmes of any Vocational Education Institution which is standardized under Technical and Vocational Education and Training concept (TVET concept) and regulated by the Tertiary and Vocational Education Commission- 	<p>1/10/2022</p> <p>1/10/2022</p> <p>1/4/2023</p> <p>1/4/2023</p>	<p>All the listed exemptions will be removed from the respective effective dates.</p>

	<ul style="list-style-type: none"> ▪ any business of export of gold, gems or jewellery or from the business of cutting and polishing of gems which are brought to Sri Lanka and exported after such cutting and polishing, where such gains and profits earned in foreign currency are remitted through a bank to Sri Lanka. 	1/4/2023	
Restrictions on certain exemptions	<p>gains and profits received or derived from business by a person from following any new undertaking(subject to the conditions and specified periods): -</p> <ul style="list-style-type: none"> i. an undertaking which is involved in the sale of construction materials recycled. ii. any business commenced on or after April 1, 2021 by an individual after successful completion of vocational education from any Vocational Education Institution. iii. an undertaking commenced by a resident person for the purpose of manufacturing of boats or ships in Sri Lanka. iv. any renewable energy project established with a capacity to produce not less than one hundred Mega Watts of solar or wind power and supplied such power to the national grid, for a period of seven years; v. an undertaking commenced on or after January 1, 2021 by any resident person who constructs and installs communication towers and related appliances. 	N/A	<p>The exemptions will be applicable only where the new undertaking commences prior to 1/4/2023.</p>

	<p>vi. an undertaking for letting bonded warehouses or warehouses related to the offshore business in the Colombo and Hambanthota Ports.</p>		
Exemption on flow-through dividend	<p>a dividend paid by a resident company to a member to the extent that such dividend payment is attributable to, or derived from, gains and profits from dividend received by that resident company;</p> <p>For this purpose, “gains and profits from dividend” means the dividend received by that company after the deduction of expenses or losses, if any, subject to the provisions of this Act and income tax paid or payable on such dividend received by that company.</p>	1/10/2022	A dividend paid by a resident company- to a member to the extent that such dividend payment is attributable to, or derived from, another dividend received by that resident company or another resident company which is subject to Advance Income Tax under subsection (1A) of section 84A.
Dividend paid to non-residents	Dividend paid by a resident company to a member who is a non-resident person.	1/10/2022	This will be removed.
New Exemptions	N/A	1/4/2022	a gain made by an entity fully owned by the Government of Sri Lanka as a gain from the realisation of a capital asset or liability of the business or realisation of an investment asset, if such gain was made due to any decision by the Government of Sri Lanka as being essential for the economic development of Sri Lanka and subject to the prior written approval of the Minister.

Deductions

Amending area	Prevailing position	Effective Date	New Position
Streamlining of enhanced capital allowances	N/A	1/4/2022	Commencing from the first date of investment on a depreciable asset, three years of project implementation period shall be provided to a person who has not made his intended total investment. Further, capital allowance arising under the second schedule shall be deducted in that year of assessment in which he has completed the total intended investment, but before the expiration of such project implementation period.
Double reduction on MARCOM expenses	A person shall be entitled to an additional deduction when calculating his income from business for a year of assessment, equal to 100% of the total amount of marketing and communication expenses deducted under section 15A during the three years of assessment commencing from April 1, 2021.	1/10/2022	A person shall be entitled to an additional deduction when calculating his income from business for a year of assessment, equal to 100% of the total amount of marketing and communication expenses deducted under section 15A during the two years of assessment commencing from April 1, 2021. (Claim is limited for two Y/As)
Taxes and other levies	At present, taxes and levies specified by the Commissioner General are disallowed for the purposes of Income Tax.	1/4/2021	Any tax or levy which is not allowed to be deducted for income tax purposes in terms of any other written law, has also been incorporated into the disallowable items

			under the Inland Revenue Act.
Thin-capitalization rule	Currently, there is an issue in computing the unused limitation for the purposes of claiming financial cost for which the deduction is denied in the previous Y/A, where there is no finance cost in the current Y/A.	1/4/2021	In order to rectify this issue, the limit shall be calculated by using the same amounts of the immediately preceding year and so on.
Improvement Expenses	Currently, claim of improvement expenses are limited as a percentage of the written down value of the asset at the end of the previous year. Accordingly, there is a concern over the claim of improvement expenses where the asset does not have a written down value at the end of the previous year. ,		Accordingly, section 14 has been amended by allowing the claim of improvement expenses where there is no WDV at the end of the previous year. The deduction is granted as follows <ul style="list-style-type: none"> ▪ Class 4 depreciable asset Expenditure is apportioned equally over 12 Y/As ▪ Other Classes of depreciable assets Expenditure is apportioned equally 3 Y/As
Business losses	In terms of section 19, a reduced rate loss cannot be set off against profits taxable at a higher rates (subject to the relief granted for SMEs). Accordingly, a person will not be able to claim reduced rate unrelieved loss due to the subsequent increase in tax rates.	1/4/2018	Accordingly, a relief provision is included under section 19 where a person had incurred a loss, in relation to a business which if it had been a profit would have been taxable at a reduced rate and such rate is subsequently increased, such loss shall not be considered as being taxable at a reduced rate.
Investment losses	N/A	1/4/2018	unrelieved losses from an investment shall be deducted only within the six years of assessment commencing on the first date of the year of assessment immediately succeeding the year of assessment in which such losses were incurred.

Separate financial statements

Where any person is engaged in business or investment activity and the income tax payable shall be calculated by applying different tax rates for such part of taxable income from any gains and profits from business or investment activity or may have exempted amounts as the case may be, such person shall maintain and prepare the financial statements to separately identify such part of taxable income from gains and profits in applying each income tax rate to each part of the taxable income or to identify the exempted gains and profits.

1/4/2022

In the case where such person has commonly incurred expenses or commonly used any assets, on all business or investment activities and any expense or deduction cannot be separately identified, it shall be lawful to divide such expenses or deductions on a proportionate basis (according to the proportion of turnover or proportion of asset usage) in preparing such financial statements.

Administration and Other

Amending area	Prevailing position	Effective Date	New Position
Specific rule applicable in computing income tax liability of the Y/A 2022/23	N/A	1/4/2022	The income tax payable by a person for the year of assessment commencing on April 1, 2022, shall be calculated separately for two periods of the year of assessment as first six months and second six months. For the purpose of such calculation, the person may use pro-rata basis (as 50% for first six months and balance 50% for second six months of the year of assessment) to arrive the taxable income for such two periods.
New insertion to source of payment.	N/A	1/4/2018	Interest, charges, annuities, a royalty, technical service fee, or similar payment is considered as a source in Sri Lanka, if it is paid by the Government of Sri Lanka, including such payments made by any institution on behalf of the Government of Sri Lanka.
Application for making an amendment to a self-assessment	30 months	1/4/2022	12 months
Request for administrative review	Within 30 days	1/4/2023	Within 14 working days
Assistant Commissioner to estimate the tax payable	N/A	1/4/2022	Under certain circumstances, an Assistant Commissioner may serve an estimate of tax on a person.

Talk to us.

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