



THE INLAND REVENUE BILL 2017



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Dear Valued Client,

INLAND REVENUE BILL 2017

The Inland Revenue Bill 2017 stems from a policy pronouncement of the Budget 2016 announced by MP Ravi Karunanayake in his capacity as the Finance Minister on the 20th November 2015. The Bill together with the committee stage amendments was passed in Parliament on the 7th of September 2017. The Bill is currently pending certification by the Speaker and will thereupon be signed into law.

The redrafting of the tax laws was set to bring about necessary improvements to the legal framework to ensure clarity, consistency and simplicity towards reflecting the features of modern tax systems in a bid to help taxpayers understand the system easily and eliminate loopholes that have been created by the ambiguities in laws while strengthening tax administration. In this tax alert, we have outlined the salient amendments made to the Inland Revenue Bill together with the committee stage amendments.

Should you require any clarifications, our team of tax professionals will be happy to help you.

Yours faithfully,

BDO Partners

CHARTERED ACCOUNTANTS

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Effective date: 01st April 2018



A. CHARGEABILITY

1. Basis of chargeability

- Any person who has taxable income for that year
 - Any person who received final withholding payment during the year
- Person has been defined to mean *“an individual or entity and includes and a body of persons corporate or incorporate, an executor, non-governmental organization and charitable institution;”*

2. Key concepts

- Residents are taxed on global income
- Nonresidents are charged on income arising in or derived from Sri Lanka
- The year of assessment is a 12 month period from 1 April to 31 March. (S. 20 (2) grants entities the right to request a change in year end at the discretion of the CGIR)
- Taxable Income (“TI”) is the aggregate of a person’s assessable income from the following sources:
 - Employment
 - Business
 - Investment
 - Other income
- Reductions are available for qualifying payments and reliefs
- Credits and Foreign tax credits are granted against taxable income
- Investment allowances and investment tax credits have been introduced
- Capital Gains Tax has been reintroduced within the ambit of “gains on realization of investment assets”
- Basis of partnership taxation has been changed.
- Deemed Dividend Tax has been removed
- WHT regime widened to cover rent and services fees.
- Transfer pricing provisions are more robust with a stringent penalty regime
- Penalties for non-compliance have been increased

B. RESIDENCE RULES



1. Individual

- resides in Sri Lanka, or
- is physically present in Sri Lanka for 183 days within any 12 month period in a year;

Change of residence (for those falling within the third category)

- An individual who is resident in Sri Lanka only by reason of his presence falling within period or periods amounting to 183 days or more in any 12 month period that commences or ends during the year shall be treated as resident from the start of the 183 day period. Otherwise the person is resident for the whole year.
- At the time of becoming resident in Sri Lanka the net cost of an asset held by the person shall be equal to the market value of the asset at that time.
- At the time he/she ceases to be resident by a resident person in Sri Lanka, the value of assets held by that person at the time of realization shall be equal to the market value.

2. Partnership

- Formed in Sri Lanka, or
- Management and control of affairs are exercised in Sri Lanka

The basis of taxing partnerships has been changed in the Bill, the current law vs. proposed law are tabulated below:

Current Treatment	New Treatment
<p>Partnership is chargeable with income tax in respect of</p> <ul style="list-style-type: none"> - Divisible Profit - Other Income <p>The liability was calculated at the rate of 8% after deducting tax relief of Rs. 1,000,000/- from aggregate amounts of Divisible Profit and other income.</p>	<p>A Partnership is not be liable to pay income tax on its Taxable Income instead a withholding tax of 8% will be deducted form share of any partnership income excluding gains from realisation of an investment asset at the time such profit been distributed to the partners.</p> <p>The Gains from realisation of an Investment Asset will be liable to tax at the rate of 10%.</p>

3. Trust

- Settled or established in Sri Lanka, or
- Trust is resident in Sri Lanka at any time during the year
- Management in Sri Lanka at any time during the year

Current Treatment	New Treatment
Investment income of Dividends and Interest subject to WHT is final. Trust is liable only on the excess profits ie profits retained after distributing to the beneficiaries.	All income is liable to tax except for dividends which is final. The trust is liable to tax before distributing the profits to the beneficiaries.
No tax credit is available to beneficiaries	The share of tax credit will be distributed amongst the beneficiaries which can be claimed against their tax liability
Tax Calculation Gross Income - sums distributed to beneficiaries @ 24%	Gross Income @ 24%

4. Companies

- Formed under the laws of Sri Lanka, or
- Registered/ Principal Office is in Sri Lanka
- Management and control of affairs are exercised in Sri Lanka

C. SOURCES OF INCOME



The ten sources of income which found in the current law has been re-classed to four sources, with most of the sources being bundled up as “investment income”.

The four sources of income together with their inclusions, exclusions and exemptions are set out below.

1. EMPLOYMENT INCOME

Scoped In	Scoped Out	Exemptions
<ul style="list-style-type: none"> - Salary, wages, leave pay, overtime pay, fees, pensions, commissions, gratuities, bonuses and other similar payments - payments of personal allowance, including any cost of living, subsistence, rent, entertainment or travel allowance - discharge or reimbursement of expenses incurred by the individual or an associate of the individual; - Payments for agreements to employment conditions - Redundancy payment, loss of office - Retirement contributions by employer, retirement payments received by employee (subject to exceptions) - payments or transfers to another person for the benefit of the individual or an associate person of the individual - the fair market value of benefits received or derived by virtue of the employment by an individual or an associate person of the individual; 	<ul style="list-style-type: none"> - Gains and Profits which are exempt from income tax and income subject to withholding taxes. - discharge or reimbursement of expenses incurred by the individual on behalf of the employer; - discharge or reimbursement dental, medical or health insurance expenses on a uniformly applicable scheme. - Payments made to or benefits accruing to employees on a non-discriminatory basis. - Value of a right or option to acquire shares to an employee under an employee share scheme - Contributions made by an employer to an employees account with a pension provident or savings fund or provident or savings society approved by CGIR. 	<ul style="list-style-type: none"> - employment income of the President - pension received from the GoSL or a department of the GoSL - capital sums paid to a person as compensation or a gratuity in relation to personal injuries suffered by the person; or the death of another person. - retirement payments from any provident, pension fund or the ETF (derived by that fund, for any period after April 1, 1987) from investments made by it and a provident fund approved by CGIR. - the income of an individual entitled to privileges to the extent provided for by a diplomatic immunities law or a similar law/ institutions. - benefits received or derived by an employee of the government of Sri Lanka from a road vehicle permit issued to that employee.

Scoped In	Scoped Out	Exemptions
<ul style="list-style-type: none"> - other payments, including gifts received in respect of the employment; - market value of shares at the time allotted under an employee share scheme, including shares allotted as a result of the exercise of an option or right to acquire the shares, reduced by the employee's contribution for the shares (subject to exceptions) 		<ul style="list-style-type: none"> - Employment income of a non-resident person is exempt if the paying company has invested more than USD 1,000Mn on assets eligible for enhanced depreciation allowance (other than on an intangible assets)- this applies upto 20 expat employees. <i>The wording of this exemption on the Bill and Amendments require clarification.</i>

2. BUSINESS INCOME

Scoped In	Scoped Out	Exemptions
<ul style="list-style-type: none"> - Service fee - Consideration received in respect of trading stock - Gains arise from realization of capital assets and liabilities. - amounts derived as consideration for accepting a restriction on the capacity to conduct the business - realization of depreciable assets of the business. - Gifts received in respect of the business. - derived that are effectively connected with the business and that would otherwise be included in calculating the person's income from an investment - Any other sources of income from business. 	<ul style="list-style-type: none"> - Gains and Profits which are exempt from income tax and income subject to withholding taxes. - Employment income included in person's income. 	<ul style="list-style-type: none"> - Exemption granted in another law or an agreement entered into prior to the commencement of this Act - profits and income from any property donated by royal or other grant before March 2,1815, to any place of public worship administered by a charitable institution, in so far as such profits and income are applied to the purposes for which such grant was made

3. INVESTMENT INCOME

Scoped In	Scoped Out	Exemptions
<ul style="list-style-type: none"> - Dividends, Interests, discounts, charges, annuities, rent, premiums, royalties and natural resource payments. 	<ul style="list-style-type: none"> - Gains and Profits which are exempt from income tax and income subject to withholding taxes. 	<ul style="list-style-type: none"> - Dividends distributed out of dividends received from a resident company on which WHT has been deducted

Scoped In	Scoped Out	Exemptions
<ul style="list-style-type: none"> - Consideration for accepting a restriction on the capacity to conduct the investment - Gifts received in respect of the investment. - Winnings from lotteries betting or gambling - Any other income from investments. 	<ul style="list-style-type: none"> - Employment and business income included in persons income. 	<ul style="list-style-type: none"> - Dividend received by a non-resident person is exempt if the paying company has invested more than USD 1,000Mn on assets eligible for enhanced depreciation allowance (other than on an intangible assets). - dividends from and gains on the realization of shares in a non-resident company derived by a resident company with respect to a substantial participation in the non-resident company. - Interest/ discount sovereign bonds (for banks and non-residents) - Interest derived by a charitable institution used for charitable causes. - amount derived by a senior citizen from an annuity for life for a period of not less than ten years purchased from a bank or an insurance company - winning from a lottery not exceeding Rs. 500,000/-
<ul style="list-style-type: none"> - Gains from realization of investment assets. 		<ul style="list-style-type: none"> - LKR 600,000 for a year of assessment by any resident individual being a total gain on realization of investment assets - a gain made by a resident individual on the realization of the individual's principal place of residence, provided it has been owned by the individual continuously for the three years before being realized and lived in by the individual for at least two of those three years (calculated on a daily basis). - a gain made on realization of an investment asset consisting shares quoted in a stock exchange licensed by the SEC of Sri Lanka

3.1 Gain on Realization Of Investment Assets

This is treated as an investment income as tabulated above and is subject to the exemptions as reflected therein. The rate of tax applicable on gains from the realization of investment assets is 10%. Tax shall be paid on gain from realization of investment assets within one month after the realization of such assets.

The mechanism to calculate gains are briefly set out hereunder:

$$\text{GAIN / (LOSS)} = \text{CONSIDERATION RECEIVED} - \text{COST OF THE ASSET}$$

Consideration Received includes:

- fair market value of any consideration at the time of realization
- amount derived/ entitled to derive in future in respect of realization of the asset
- consideration received by way of grant of an option.

Consideration received excludes an exempt amount, a final withholding payment and amount included in person's income.

Cost of the asset includes:

- expenditure incurred in acquiring the asset (including cost of construction, manufacture or production)
- expenditure incurred in altering, improving and repairing the asset
- incidental expenditure incurred in acquiring and realizing the asset

Cost of the asset excludes consumption expenses, excluded expenses and expenditure to the extent to which it is deducted in calculating person's income or in the cost of another asset.

The cost of an investment asset held by a person as at 30th September 2017 is equal to the market value of the asset at that time.

Special rules have been stipulated for realisation of assets/ deemed realisation in instances such as changing one's residence, death, divorce, gifting assets at no consideration to one's associate/ any individual or charitable institution.

Associate in relation to an individual is defined to mean *"the individual's child by marriage or adoption, spouse, parent, grandparent, grandchild, sibling, aunt, uncle, nephew, niece or first cousin"*

The manner and the procedure relating to the payment of tax on the gain from realization of an asset may be specified by the Commissioner General.

4. OTHER INCOME

Scoped In	Scoped Out	Exemptions
<ul style="list-style-type: none"> - Any other source of income other than income which are casual and non-recurring nature. 	<ul style="list-style-type: none"> - Gains and Profits which are exempt from income tax and income subject to withholding taxes. - Employment, business and investment income included in person's income. 	<ul style="list-style-type: none"> - any prize received by a person as an award made by the President of the Republic of Sri Lanka or by the Government in recognition of an invention any research - any sum received by a person from the President's Fund or National Defence Fund - any amount derived by a person from the sale of any gem on which WHT has been deducted



D. QUALIFYING PAYMENTS AND RELIEFS

1. Donations made (in money) to a charitable institutions

- established for providing institutionalized care for sick and needy
- Declared by Minister as an Approved Charity subject to the following ceilings (i.e. the lower of):
 - Individuals - 1/3 of TI or LKR 75,000
 - Entities - 1/5 of TI or LKR 500,000

2. Profits remitted to the Presidents Fund by a public corporation as required by law or corporation rules

3. Personal/ Entity tax reliefs

- Individuals - both residents as well as citizens (other than trustee, receiver, executor or liquidator) - LKR 500,000 tax free allowance (not applicable on capital gains)
- Individuals in employment- LKR 700,000
- Individuals with rent income - 25% repair allowance on the investment asset
- Senior Citizen individuals with interest income - LKR 1,500,000
- Resident individual or partner of a partnership with income earned in foreign currency in Sri Lanka, from any service rendered in or outside Sri Lanka to any person outside Sri Lanka, Rs.15,000,000 for each year of assessment, up to the total of such income for the year

4. Donations made to specified institutions

- Government of Sri Lanka or a fund established by same
- Local Authority a fund established by same and approved by the Minister
- Buddhist and Pali University as per Buddhist and Pali University Act No. 74 of 1981
- Higher Education Institutions as per Universities Act No. 16 of 1978
- Sevana Fund created by National Housing Development Authority as per National Housing Development Authority Act No. 17 of 1979
- Api Wenuwen Api Fund as per Api Wenuwen Api Fund Act No. 6 of 2008
- National Kidney Fund as per National Kidney Fund Act No. 34 of 2006

E. TAX RELIEFS - INVESTMENT INCENTIVES



1. Enhanced Depreciation Allowances

The following concessions are granted to any person who invests in a new business undertaking in the following regions/ project:

Region/ Project	Rate	Amount of Investment (in tangible assets)
Other than Northern Province	100%	USD 3Mn to 100Mn
Northern Province	200%	USD 3Mn
Other than Northern Province	150%	USD 100Mn +
State owned company (a company where 50% + shares are held by the Government and includes a company or which 40%+ shares held by the Government are acquired by a person for an amount not less than USD 250 million)	150%	USD 250Mn +

2. Time period for deducting unrelieved losses

- Any utilized losses could be carried forward and set off in the same manner over a period of 6 years
- If the loss has been incurred due to enhanced depreciation allowances claimed during a year of assessment, the carried forward period set off has been extended to ten years to twenty five years.

It is pertinent to note that as per the current law deductible losses have an indefinite life.

F. WITHHOLDING TAXES



SOURCE	WITHHOLDING AGENT	WITHHOLDEE	RATE (%)	Final
Employment	A Resident Employer	any employee	rates specified by the Commissioner General and published in the Gazette	
Interest or discount	A Resident Person	A resident person (other than on government securities)	5%	✓
		a senior citizen in relation to a bank deposit account	At the rate prescribed in regulations	✓
		A Non-resident	14% (subject to DTA provisions)	
Dividends	A Resident Person	A resident person	14%	✓
		A Non-resident	14% (subject to DTA provisions)	
Rent	Any Person	A resident person	10%	
		A Non-resident	14%	
Winnings from a lottery, reward, betting or gambling	A Resident Person	Any Person	14%	✓
Discount, charge, natural resource payment, royalty, premium or retirement payment	A Resident Person	Any Person	14%	
Service Fees and contract payments	Any Person	A resident individual	First Rs.50,000 per month - 0% Any Balance - 5%	
		A Non-resident	14%	✓
Insurance Premium	Any Person	A Non-resident	14%	✓
Gems sold at an Auction of National Gem and Jewelry Authority	Any Person	Any person	2.5%	✓

- Deductions for WHT will only be granted when the tax has been paid the tax to the CGIR.
- WHT Returns are to be filed annually within 30 days from the end of the year of assessment (i.e. 31 March)

G. TAX RATES

1. Individuals

Taxable Income (LKR)	Tax Rate
First 600,000	4%
Next 600,000	8%
Next 600,000	12%
Next 600,000	16%
Next 600,000	20%
Any Balance	24%

Income from employment would be liable at the same rates subject to the qualifying payments. Therefore, the current maximum rate of 16% has been removed.

- Retirement payment rates

Period of contribution or employment is 20 years or less:

Total Income from Employment (LKR)	Tax Rate
First 2,000,0000	0%
Next 1,000,0000	5%
Any Balance	10%

Period of contribution or the period of employment is more than 20 years:

Total Income from Employment (LKR)	Tax Rate
First 5,000,0000	0%
Next 1,000,0000	5%
Any Balance	10%

2. Trusts - 24%

3. Companies

- Normal Rate - 28%
- Concessionary rate - 14%
 - Small and Medium Enterprises
 - a company ***predominantly*** conducting a business of export of goods and services
 - a company ***predominantly*** conducting an agricultural business
 - a company ***predominantly*** providing educational services
 - a company ***predominantly*** engaged in an undertaking for the promotion of tourism
 - a company ***predominantly*** providing information technology services

Predominantly means 80% or more calculated based on gross income.

“Small and Medium Enterprise” is defined to mean a person that satisfies the following:

- conducts business solely in Sri Lanka other than an individual who is engaged in providing professional services individually or in partnership being an individual who is professionally qualified;
- does not have an associate that is an entity; and
- the annual gross turnover is less than Rs. 500 Mn

"export" has been defined to include specified undertakings engaged in the activities enlisted below:

- Entrepot trade involving import, minor processing and re-export;
- Offshore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing the same into Sri Lanka;
- Providing front end services to clients abroad;
- Headquarters operations of leading buyers for management of financial supply chain and billing operations;
- Logistic services such as bonded warehouse or multi-country consolidation in Sri Lanka;
- Transshipment operations;
- Freight forwarding;

- Supply of services to any exporter of goods or services or to any foreign principal of such exporter directly, being services which could be treated as essentially related to the manufacture of such goods or provision of such services exported by such exporter either directly or through any export trading house, including any service provided by an agent of a ship operator to such agent's foreign principal, and the payment for such services are made by such exporter or foreign principal to such person in Sri Lanka in foreign currency;
- Production or manufacture, and supply to an exporter of non-traditional goods;
- The performance of any service of ship repair, ship breaking repair and refurbishment of marine cargo containers, provision of computer software, computer programmes, computer systems or recording computer data, or such other services as may be specified by the Minister by notice published;
- Sale for foreign currency, of any gem or jewellery, being a sale made in Sri Lanka by any person authorized by the Central Bank of Sri Lanka to accept payment for such sale in foreign currency.

- **Luxury rate - 40%**

- a company with income from a business consisting of betting and gaming, liquor and/or tobacco

4. Unit Trusts or Mutual Funds - 28%

The taxability on unit trusts have been structurally changed to tax dividends distributed by unit trusts to unitholders.

5. Charitable institutions - 14%

6. Non-Governmental organizations - 28%

Current Treatment	New treatment
Calculation of Deemed Profit: 3% equal to aggregate of Grant, Donation, and Contribution or in any other form other than received from the Government of Sri Lanka.	Calculation of the income from NGO is same. However the exemption on donation received from Government has been removed

7. Employees Trust Funds, Provident or Pension Funds and Termination Funds - 14%

8. Remittance tax rate on profits - 14%



H. INTERNATIONAL

1. TRANSFER PRICING (“TP”)

The transfer pricing regulations been strengthened and include the following concepts and penal provisions;

- Permanent Establishment
 - Safe harbor rules
 - Penalties
- **Permanent Establishment (“PE”)**

The concept of a PE previously was only prevalent in Double Taxation agreements, the new law seeks to introduce the concept in the domestic statute. Accordingly, the PE concept is extended in relation to a country with which an agreement has not been entered into on avoidance of double taxation and includes **any business connection or a fixed place of business through which the business of the enterprise is wholly or partly carried out irrespective of the number of days of such business carried out in Sri Lanka.**

Accordingly, for TP purposes a PE is separated from its head office and related branches and the transactions between them will need to be ascertained having regard to arm’s length price.

- **Safe harbor rules**

The concept of safe harbor rules have been introduced. Under this, the Commissioner General is empowered to propose a simplification measure that shall accept the transfer price declared by the tax payer. This has simplified the Transfer Pricing and give benefit to tax payers those who do not have the comparable and service organizations.

- **Penalties**

A new section been introduced to impose penalties on non-compliance to transfer pricing regulations;

- Required documents have not been maintained - 1% from the aggregate value of transaction
- Where required documents have not been submitted - LKR 250,000/-
- Non-disclosure of any required information - 2% from the aggregate value of transaction
- Where required documents have not been submitted on the specified date - LKR 100,000/-
- Concealed or furnished inaccurate particulars of such income - 200% of value of additional tax

2. DOUBLE TAXATION AGREEMENTS

The law recognizes the concept of treaty override but the concept of beneficial ownership has been stressed. Accordingly, where there is any conflict between the terms of a double tax provisions of the Act, the double taxation agreement prevails. However, the benefit under these agreements shall not be available to a body that, when fifty percent or more of the underlying ownership or control of that body is held by an individual or individuals who are not residents of that other contracting state for the purposes of the agreement, other than resident of the other contracting state is a company listed on a stock exchange in that other contracting state.



I. ADMINISTRATION

1. Obtaining TIN registrations

The Bill requires every person liable to furnish a return of income shall register not late than 30 days after the end of the basis period for that year from the CGIR. In the event the CGIR refuses the application, the reason for such refusal is to be communicated to the applicant in writing within 14 days of making the decision.

2. Tax Payments

Tax payments arise in three circumstances:

- Withholding Tax
- Installment Tax
- Tax on assessment

2.1 Withholding Tax

Sums are to be remitted within 15 days after the end of the each calendar month in respect of any tax that has been withheld on the following source in the payment or allocation:-

1. Employment income
2. Dividend, interest, discount, charge natural resource payment, rent, royalty, premium and retirement payment.
3. Share of any partnership income
4. Service fees in respect of:
 - Teaching, lecturing, examining, invigilating or supervising examination.
 - Commission or brokerage to a resident insurance, sale or canvassing agent.
 - Endorsement fee
 - Supply of any article on a contract basis through tender or quotation.

2.2 Installment Tax

Income tax are payable in quarterly installments if any person derives or expect to derive assessable income from business, investment or employment which has not been subject to tax under the withholding tax regime. The taxes are required to be made based on the estimated tax liability for the year as tabulated below:

	Due day of installment of tax
A person whose Y/A ending on 31 st March	1 st Installment -on or before 15 th of August 2 nd Installment -on or before 15 th of November 3 rd Installment -on or before 15 th of February 4 th Installment -on or before 15 th of May Final installment -on or before 30 th September
In any other case	on or before 15 days after each 3 month period commencing at the beginning of each year of assessment 1 st Installment -on or before 15 th of July 2 nd Installment -on or before 15 th of October 3 rd Installment -on or before 15 th of January 4 th Installment -on or before 15 th of April Final Installment - on or before 30 th September

The amount of each installment of tax payable by a person for a year of assessment tax is to be calculated based on the following formula:-

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

A- Is the current estimated tax payable for the year of assessment

B- Is the number of installment remaining for the year of assessment including the current instalment

C- Is the sum of way

- Previous instalment paid during the year of assessment
- Withholding tax paid under division II chapter VII of the Act
- Tax paid under subsection (3) or (4) of section 86 as withholding tax where who fails to deduct WHT at the time of the payment but paid subsequently.
- Any person who pays tax by installment basis is required to file a return of estimated tax liability for a year of assessment at the time of making payment of the first installment.
- The period for assessing a penalty shall be limited to 5 years

2.3 Tax on assessment - payable on the date stated in a notice of payment.

2.4 Tax on capital gain - Tax shall be paid on gain from realization of investment assets within one month after the realization of such assets.

3. Penalties

3.1 Penalty on non-registration / change of details

Any person who fails to meet tax registration requirement and time set out in the section 102 shall be liable for a penalty not exceeding LKR 50,000.

3.2 Penalty on non-filing the return

Any person who fail to file a tax return on or before the date specified in the act shall be liable for a penalty as tabulated below:

50% of the amount of the tax due + Further 1 % of amount of tax due for each month or part of the month until return is filed	Whichever is greater
LKR 50,000 + Further LKR 10,000 for each month or part of the month until return is filed	

The penalty in respect of tax return shall be limited to LKR 400,000.

3.3 Penalty on late /non payment

Any person who fails to pay in full or part of tax within 14 days from due date or by the due date specified in notice of assessment shall be liable for a penalty equal to 25% of the tax payable amount.

Any person who fails to pay in full or part of installment tax within 14days from due date shall be liable for a penalty equal to 10% of the tax payable amount.

3.4 Penalty on negligent or fraudulent underpayment

Any person tax is unpaid, as a result of an incorrect statement or material omission in a taxpayer's tax return. Such person shall liable to penalty as tabulated below:

Underpayment	Penalty
The amount of the underpayment is less than LKR 10 Mn or 25 % of the person's tax liability for the period.	25% of the underpayment
The amount of the underpayment is more than LKR 10 Mn or 25 % of the person's tax liability for the period.	75% of the underpayment

4 Tax Returns

- **Income Tax return**

Every person shall furnish a return of income who is chargeable with income tax to the Assistant Commissioner not later than 18 months after the end of each year of assessment.

A resident individual who is employed where such employer only file a return of income when ceased an employment during the year.

- **Capital Gains tax return**

Every person shall furnish a capital gain tax return to Commissioner General not later than one month after realization of an investment assets.

Following information and document to be filed with Capital gain tax return.

- Statement of calculation of capital gain
- Tax payment details and any tax credit is available in respect of such gain.

5 Tax Assessment

The time bar provision for raising an initial assessment have been extended to thirty months.

6 Due dates

In the event a specified due day to perform any process or activity such last date falls on which the Department is not open to the public (holiday); such activity will be considered as duly done if it is performed or done on the next succeeding day on which Department is open to the public.

7 Tax Rulings

The Bill sets out a more rigorous ruling mechanism that the current advance ruling mechanism. It encompasses both private and public rulings:

- **Private ruling**

According to the private ruling concept, a taxpayer may make a written request to CGIR on the application of IRA on a transaction entered into or to be entered into by such person. Such request must specify precisely the question on which the ruling is sought including full details of transaction and other related documents and full statement setting out the opinion of the applicant.

The timeframe for issuance of the ruling is 90 days of receipt of the application and a fee maybe charged in respect of same. A private ruling will be binding on the CG as against the taxpayer identified, but shall not binding on the CG as against any other taxpayer.

- **Public ruling**

To achieve consistency in the administration of the Act and provide guidance to the general public and officers of the Department, the CGIR may issue public rulings setting out the Commissioner- General's interpretation of the application of the Act. A public ruling will be binding on the Commissioner- General until withdrawn but not be binding on taxpayers.

8 Authorized representatives

The Commissioner-General may specify the circumstances under which a taxpayer may designate an authorized representative to communicate with the Department on behalf of the taxpayer and shall accept a designation made in accordance with such circumstances.

ANNEXURE 1 - COMPARISON OF COMPUTATION OF TAX

Calculation of Adjusted Business Profits			
Current treatment		New Treatment	
Profit before tax as per Income Statement	xx	Profit before tax as per Income Statement	xx
(-) Profits and Income Considered separately	(xx)	(-) Income from other sources	(x)
Eg :- Interest Income	(xx)	(+) Disallowable Expenses [Division IV (Sec. 10)]	
Dividend Income		Eg :Domestic Expenses	xx
(+) Disallowable Expenses (Sec 26)		Penalties, fines, Entertainment etc	xx
Ex- Entertainment	xx	(+) Capital Nature Expenses [Division IV (Sec. 11)]	(xx)
Gratuity Provision	xx		
(-) Allowable Expenses (Sec 25)		(-) Repairs (including capital nature) [Division IV (Sec. 14)]	(x)
Ex- Depreciation		Class 4 assets - 5% of previous year	
Allowances (Annexure 2)	(xx)	Others - 20% of Previous year	
Gratuity Paid	<u>(xx)</u>	(-) R &D and agricultural start up expenses (including capital nature)	(x)
Statutory Income from Business	<u>xx</u>	(-) Depreciation Allowances [Division IV (Sec. 16)]- (Annexure 2)	<u>(xx)</u>
Other Sources of income		Assessable Income from Business	
Ex- Interest Income	<u>xx</u>	(Net of losses)	xx
Total Statutory Income	xx	Net Investment Income	xx
(-) Deductions under Sec 32		Other Sources of income	
Ex- Income not form part of assessable Income	(xx)	Assessable Income	<u>xx</u>
Losses	(xx)	(-) Qualifying Payments Under Sec 52	xx
Pre commencement Exp	<u>(xx)</u>	Taxable Income	<u>(xx)</u>
Assessable Income	xx		
(-) Qualifying Payments Under Sec 34	<u>(xx)</u>	Income Tax Taxable Tax Liability = Income X Rate	<u>xx</u>
Taxable Income	<u>xx</u>		

ANNEXURE 2 - COMPARISON OF TAX DEPRECIATION RATES

Current Treatment	New Treatment																																																		
<p>Depreciation Allowances (Rates) An allowance for depreciation is granted to the assets acquired, constructed or assembled by applying relevant rates specified in the Sec. 25 (a) of the IRD Act No. 10 of 2006. Such rates are as follows:</p> <table border="1"> <thead> <tr> <th>Class of asset</th><th>Rate</th></tr> </thead> <tbody> <tr> <td>Information Technology Equipment</td><td>25%</td></tr> <tr> <td>Software developed in SL</td><td>100%</td></tr> <tr> <td>Motor Vehicle and Furniture</td><td>20%</td></tr> <tr> <td>Buildings-</td><td></td></tr> <tr> <td> Prior to 1/4/2015</td><td>6.67%</td></tr> <tr> <td> After 1/4/2015</td><td>10%</td></tr> <tr> <td>Software developed in SL</td><td>100%</td></tr> <tr> <td>Plant & Machinery</td><td></td></tr> <tr> <td> Prior to 1/4/2011</td><td>12.5%</td></tr> <tr> <td> After 1/4/2011</td><td>33.3%</td></tr> <tr> <td>Plant & Machinery acquired -</td><td></td></tr> <tr> <td> • Energy efficiency purposes, technology upgrading purposes, exporters (Subject to conditions), new undertaking with minimum investment of USD 2Mn for the manufacture of products for export.</td><td>50%</td></tr> <tr> <td> • IT infrastructure by stock broker companies, business of power generation</td><td>100%</td></tr> </tbody> </table>	Class of asset	Rate	Information Technology Equipment	25%	Software developed in SL	100%	Motor Vehicle and Furniture	20%	Buildings-		Prior to 1/4/2015	6.67%	After 1/4/2015	10%	Software developed in SL	100%	Plant & Machinery		Prior to 1/4/2011	12.5%	After 1/4/2011	33.3%	Plant & Machinery acquired -		• Energy efficiency purposes, technology upgrading purposes, exporters (Subject to conditions), new undertaking with minimum investment of USD 2Mn for the manufacture of products for export.	50%	• IT infrastructure by stock broker companies, business of power generation	100%	<p>Depreciation Allowances (Rates) An allowance for depreciation is granted to the assets acquired, constructed or assembled by applying relevant rates specified in the fourth schedule of the Bill.</p> <table border="1"> <thead> <tr> <th>Class of asset</th><th>Rate</th></tr> </thead> <tbody> <tr> <td>Class 1</td><td>20%</td></tr> <tr> <td>Class 2</td><td>20%</td></tr> <tr> <td>Class 3</td><td>20%</td></tr> <tr> <td>Class 4</td><td>5%</td></tr> <tr> <td>Class 5</td><td>Actual lifetime or 5% (in the case of assets with an indefinite lifetime)</td></tr> </tbody> </table> <p><i>Classification of depreciable assets</i></p> <table border="1"> <tbody> <tr> <td>Class 1</td><td>Computer Equipment</td></tr> <tr> <td>Class 2</td><td>Motor Vehicles (Other than vehicles used for travelling), Plant & Machinery used in the business</td></tr> <tr> <td>Class 3</td><td>Furniture, Fixtures, Specialized Plant & Machinery, Water transportation equipment, aircrafts etc.</td></tr> <tr> <td>Class 4</td><td>Buildings and structures</td></tr> <tr> <td>Class 5</td><td>Intangible Assets (Other than goodwill)</td></tr> </tbody> </table>	Class of asset	Rate	Class 1	20%	Class 2	20%	Class 3	20%	Class 4	5%	Class 5	Actual lifetime or 5% (in the case of assets with an indefinite lifetime)	Class 1	Computer Equipment	Class 2	Motor Vehicles (Other than vehicles used for travelling), Plant & Machinery used in the business	Class 3	Furniture, Fixtures, Specialized Plant & Machinery, Water transportation equipment, aircrafts etc.	Class 4	Buildings and structures	Class 5	Intangible Assets (Other than goodwill)
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