

CORPORATE AND PERSONAL TAXATION

Subject No: 304

Updates for the
Year of Assessment 2023/2024

This supplementary can be used
only with CPT book printed in December 2023 (Sixth Edition)

IMPORTANT

Please note that the year of assessment tested for the forthcoming examinations under the new syllabus will be as follows;

| Examination | | Year of Assessment (Y/A) |
|---------------------|---|--------------------------|
| 2024 - July Exam | - | 2023/2024 |
| 2025 - January Exam | - | 2023/2024 |

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Chapter 01 | Introduction to Taxation of Sri Lanka

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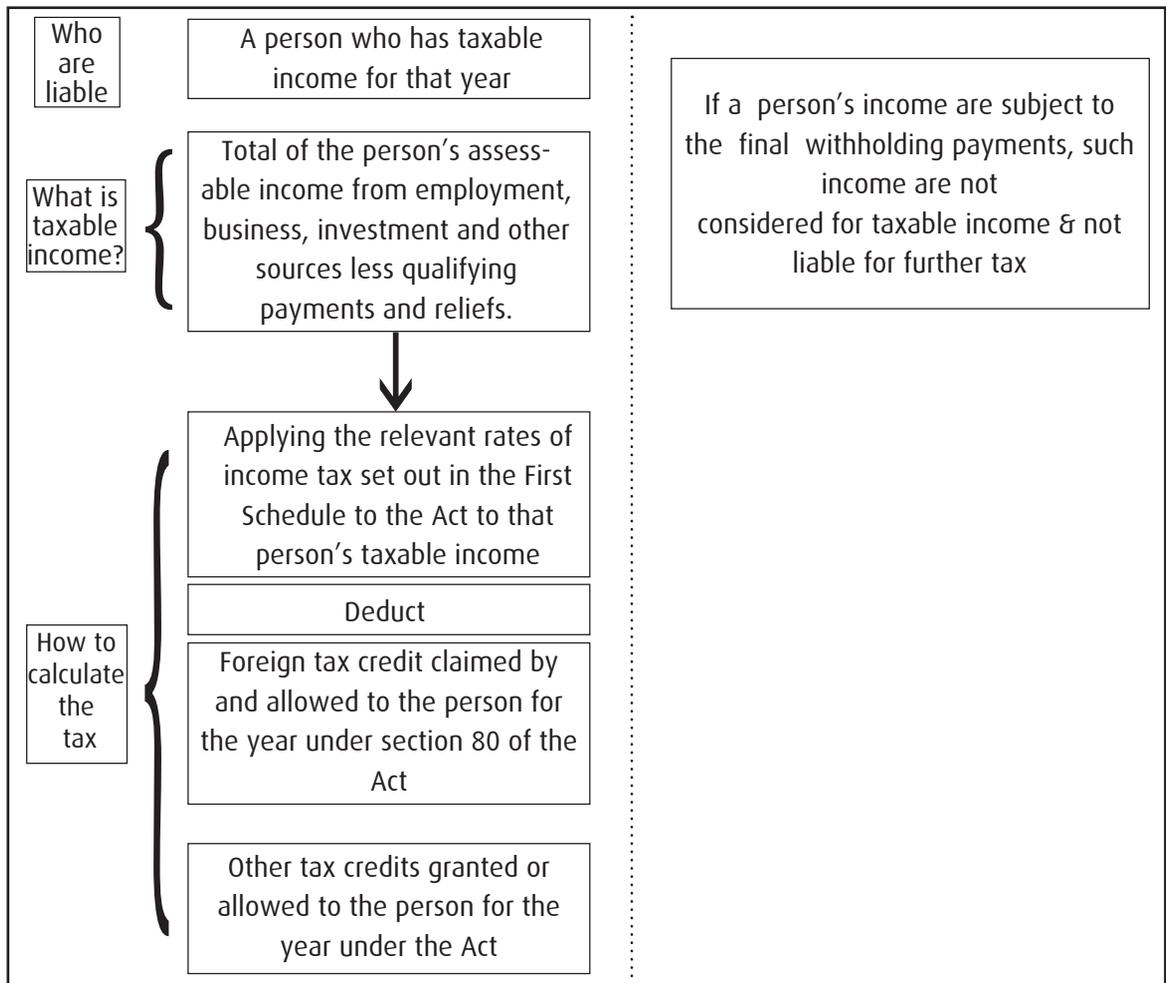
1.4.1 Income Tax (IT)

Income Tax is governed by the Inland Revenue Act, No 24 of 2017 as amended by subsequent Inland Revenue Amendment Acts and the gazette notices issued under the Act.

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1.5 Imposition of Income Tax (Charging Section)

Following figure should be as follows.



1.5.2 "How frequently" is the tax liability computed?

2nd and 3rd para should be as follows.

"Year of Assessment" means the period of twelve months commencing on the first day of April of any year and ending on the thirty first day of March in the immediately succeeding year (Sec. 20(1)).

For an example, year of assessment 2023/24 covers the period from 01.04.2023 to 31.03.2024. However if a trust or a company is unable to submit the accounts for the period from 1st April to 31st March, it can request from CGIR to submit accounts based on an alternative period of 12 months (Sec. 20(2)).

Solutions

2nd answer should be as follows.

No approval of CGIR can be requested only to submit accounts based on a different period of 12 months.

Chapter 02 | Sources of Income

2.1.3 Value of Benefits

1st paragraph should be as follows

Values specified for Non-Cash Benefits w.e.f. 01.04.2023 are as follows; (As per R1 - Circular dated 06.04.2023)

2 (i) table should be as follows

| Description | Monthly Non-Cash Benefits (Rs.) | | |
|---|---|---|--|
| | In Rated Area | In Unrated area | Estate Bungalows |
| The residence is provided by the employer (furnished / unfurnished) | 12.5% of the salary of the relevant month | 10% of the salary of the relevant month | 7.5% of the salary of the relevant month |

Following should be removed

The value of any place of residence should be considered as inclusive of any security, housemaids, servants, laundry etc.

2 (iii) paragraph should be as follows

(iii) Where the employer reimburses any expense incurred by the employee or pays any amount as a monthly allowance connected with a house or apartment occupied by the employee, the value of benefit shall be the actual expense reimbursed by the employer.

2 Following paragraph should be added as (iv)

- (iv) If any amount is deducted from employee's salary for providing a place of residence or by way of rent, benefit specified less the amount deducted from the employee's salary.

3 should be replaced as follows

3. Value of travelling, transport or related facilities provided by the Employer.

The value of the benefit, from the provision of motor vehicle partly used for private use or the aggregate of any allowance [for paragraph (b) and (c) below] paid in lieu of the provision of such vehicle, is quantified as follows.

- (a) The value of benefit from the private use (partly) of any motor vehicle provided by the employer.

| Type of the vehicle | Specified Amount for the Relevant Month (Rs.) | | |
|---------------------|---|--------|--------|
| | Vehicle | Driver | Fuel |
| Any vehicle | 20 000 | 10 000 | 20 000 |

- (b) The value of the benefit shall be 25% of the cost incurred by the employer, for the payment of any amount to the employee for using a vehicle owned or rented by that employee, where such employer should provide a vehicle or pay an amount in lieu of providing a vehicle for official use (fully or partly) to that employee, under any Circular, Directive or Regulation issued in that behalf by the Government.
- (c) Where any employee is required to be provided with a vehicle for official use (fully or partly) and entitled to a payment for fuel under any Circular, Directive or Regulation issued in that behalf by the Government, such part of the cost incurred by the employer as attributable to 25% of the fuel quantity for which the employee is entitled under such Circular, Directive or Regulation, shall be the value of the benefit to be included.
- (d) The value of benefit shall be quantified as provided under paragraph 3(a) above in respect of only one vehicle from the primary employment and/or secondary employment as the case may be.
- (e) Where an employee is provided fuel for more than one vehicle, the paragraph 3(c) is applied only for one vehicle from the primary employment and/or secondary employment as the case may be.
- (f) The aggregate of the cost incurred by the employer/employers for vehicle and fuel of all additional vehicles shall be the value of benefit to be included. If the cost of such additional vehicle/s is not ascertainable, market value of the monthly operating lease payment for similar type of a vehicle [including same or approximately same capacity vehicle in Cubic Centimeters (CC)] should be the value of such benefit for a month.
- (g) The value of benefit to an employee from private use of any motor bicycle (fully or partly) -
- i. Provided by the employer with fuel on such employer's account, amount of such non cash benefit shall be Rs. 5 000 per month (irrespective of the engine capacity);
 - ii. Provided by the employer without fuel, amount of such non cash benefit shall be Rs. 3 000 per month (irrespective of the engine capacity)
- (h) The value of the benefit from private use of -

- i. Any motor vehicle used for field work, provided by the employer where accurate record of such usage is maintained by such employer, amount of such non cash benefit shall be Rs. 25 per kilometer (irrespective of the engine capacity of the vehicle) but shall not exceed Rs. 20 000 per month.
 - ii. Any motor bicycle provided by the employer where accurate record of such usage is maintained by such employer, amount of such non cash benefit shall be Rs. 05 per kilometer (irrespective of the engine capacity of the vehicle)
- (i) Where the employer incurs or reimburses any expense in respect of fuel or maintenance of any motor vehicle or motor bicycle owned by the employee, the value of the benefit to the employee is the actual expenditure.

If any amount is deducted from the employee's salary for providing travelling, transport or related facilities, the employment benefit should be the benefit specified under 3(a), (b), (c) or (f) above less the amount deducted from the employee's salary.

5 should be replaced as follows

5. Loans on concessionary interest rates

Where an employer or on behalf of the employer any bank or financial institution has provided a loan to an employee and employer agreed to settle or bear the full or part payment of the cost of interest on such loans, and such benefit is available for all employees of the employer without any discrimination, value of such benefit received or derived to an employee shall be zero.

6 and 7 should be added as follows

6. Payment of telephone bills of the employee

Where an employer pays telephone or communications bills of the employee which used for official and private purposes, value of such benefit received or derived to an employee from such benefit shall be 50% of the bill payment amount made by the employer.

7. Other non-cash benefits provided by the employer

Cost of the benefit incurred by an employer shall be treated as value of benefit received or derived by an employee for all other non-cash benefits (benefits not covered under 1 to 6) provided by the employer. If the cost is not ascertainable, market value of a similar kind of benefit shall be treated as the value of such benefit.

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2.1.6 Basis of payment

Example 1 should be amended as follows

Example 1

Mr. Gamage is an employee of ABC Company. The company paid bonus of Rs. 500,000 in December 2023, out of the profit earned for the year of assessment 2022/23. Mr. Gamage is liable to tax on this bonus for the year of assessment 2023/24.

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Following should be removed

Lower rates applicable for retirement benefits

[Following rates were applicable only upto 31.12.2019]

(a) where the period of contribution or the period of employment is 20 years or less

| Total Income from employment | Tax Payable |
|------------------------------|-------------|
| On the first Rs.2,000,000 | NIL |
| On the next Rs.1,000,000 | 5% |
| On the balance | 10% |

(b) where the period of contribution or the period of employment is more than 20 years.

| Total Income from employment | Tax Payable |
|------------------------------|-------------|
| On the first Rs.5,000,000 | NIL |
| On the next Rs.1,000,000 | 5% |
| On the balance | 10% |

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2.2.5.1 General Deductions (Section 10) - General Rules

Following should be removed

- ✓ Interest or Discount paid – 5%
- ✓ Rent payments made to a resident person where the aggregate payment exceeds or equal to Rs.100,000 per month – 10% on full amount
- ✓ All other payments except Dividend – 14% (Charge, Natural Resource payment, Royalty or Premium)
- ✓ 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,
- ✓ For teaching, lecturing, examining, invigilating or supervising an examinations
- ✓ As a commission or brokerage to a resident insurance, sales or canvassing agent
- ✓ 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 prescribe regulation.

(However, the deduction is not applicable to a service payment which does not exceed Rs.100, 000 per month.)

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2.2.5.1 General Deductions (Section 10) - General Rules

Following should be added as the last point

- Cash payments above Rs. 500 000 per day other than by way of bank payment.

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2.2.5.4.1 Interest Expenses (Section 12)

Example should be amended as follows

Mr.Nimal is carrying on a business of selling computer accessories. He obtained a bank loan and utilised the loan proceeds as follows during the year 22/23.

50% for construction of new office building.

25% for payment of salaries to the staff.

25% for his private purposes.

During the year of assessment 2022/2023, he paid Rs. 300,000 as interest for the loan. During the year of assessment 2023/2024 he sold the office building and loan interest and for the year is Rs. 250,000.

During the year of assessment 2022/2023, under Section 12(a) Mr. Nimal is entitled for a deduction amounting to Rs. 150,000 (50% of the Loan interest) paid as interest on the funds used to construct the new office building as it is an asset used during the year. Similarly, (sec. 12)

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2.2.5.4.2 Thin Capitalization Rule (Section 18)

2nd paragraph should be amended as follows

Section 18 restricts the deductibility of interest expenses in calculating an entity's income. This is called as thin capitalization rule. Following rule is applicable w.e.f. 01.04.2021.

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Following should be removed.

For Manufacturing Entities

Allowable Finance Cost attributable to financial instruments = (Total Financial Cost/Total Cost of Financial Instruments) X [(Total of the issued Share Capital and reserves) X 3]

For other entities

Allowable Finance Cost attributable to financial instruments = (Total Financial Cost/Total Cost of Financial Instruments) X [(Total of the issued Share Capital and reserves) X 4]

This rule has been changed w.e.f. 01.04.2021.

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Following should be removed.

Important: Financial cost incurred (other than brought forward amounts) during the year of assessment commencing on April 1, 2021, shall be deducted irrespective of the limit referred above. That year of assessment shall not be recognized for the purpose of six years period referred above.

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Following should be added.

In the case where there is no financial cost incurred during the year, in calculating the unused limitation for the above purpose, the limit shall be calculated by using the same amounts of the immediately preceding year and so on.

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Example should be amended as follows.

Company B is a garment factory and incurs interest expense amounting to Rs. 2,500,000 during the year of assessment 2023/24. Balance Sheet of the company as at 31.03.2024 revealed as follows.

| | |
|-----------------|------------|
| Stated Capital | 5,000,000 |
| Reserves | 2,000,000 |
| Long Term Loans | 30,000,000 |

Finance Cost attributable to financial instruments = (Rs. 2,500,000/Rs. 30,000,000) X [(Rs. 5,000,000 + Rs. 2,000,000) X 4] = 2,333,333

Finance Cost allowable to deduct in Y/A 2023/24 = Rs. 2,500,000.

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2.2.5.4.4 Research & Development cost (Section 15)

following should be added as the last sentence

According this concession is not applicable for YA 2023/24.

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Example should be amended as follows

Company A formed during year 2023/24 for the purposes of researching and developing a new fertilizer. The research and development is a two-year process. During year 1, Company A incurs expenses in developing the new fertilizer of LKR 5,000,000, including wages for researchers, the rental of a laboratory, legal fees and materials. However, the research for this year is unsuccessful. Company A is allowed to deduct LKR 5,000,000 expenses incurred during year 1 as these expenses fall within the definition of "research and development costs" in sec. 15.

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Following should be removed.

Marketing and communication expenses

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Example should be amended as follows.

The ABC is a garment factory. It acquired a machinery on 01.06.2021 at a cost of Rs. 1,000,000/- and used it in the production of income. Suppose ABC continually uses it for next five years, the Capital allowance is calculated as follows;

| Year of Assessment | Depreciation basis | Remaining No. of Years | Depreciation for the year | Cumulative Depreciation |
|--------------------|--------------------|------------------------|---------------------------|-------------------------|
| 2021/2022 | 1,000,000 | 5 | 200,000 | 200,000 |
| 2022/2023 | 800,000 | 4 | 200,000 | 400,000 |
| 2023/2024 | 600,000 | 3 | 200,000 | 600,000 |
| 2024/2025 | 400,000 | 2 | 200,000 | 800,000 |
| 2025/2026 | 200,000 | 1 | 200,000 | 1,000,000 |

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Enhanced Capital Allowances (Second Schedule)

Following should be amended after the 1st paragraph.

However, a person who has entered into an agreement with the Board of Investment of Sri Lanka and invests in Sri Lanka in the expansion of his existing undertaking, during any year of assessment shall be granted enhanced capital allowances.

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2.2.5.4.7 Improvements (Section 14)

following should be amended as;

The deductions shall not exceed

For assets categorized under

- Buildings, structures and similar depreciable assets (class 4) - 5%
 - For all cases - 20%
- } of WDL of the asset
at the end of the
previous year

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following should be removed

w.e.f. 01.04.2021, limitation on repairs will be removed. And the word “improvement” is defined.

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following should be added

In the event of the written down value referred above is zero for a depreciable asset, the deduction for improvement shall be deducted in equal amounts apportioned over-

- (a) twelve years of assessment, for a Class 4 depreciable asset;
- (b) three years of assessment, for other Classes of depreciable assets,

commencing from the year of assessment in which the expenditure was incurred.

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Example should be amended as follows

Consider the above example and there will be an improvement amounting to Rs.400,000/- in the Year of Assessment 2023/2024.

The cost of improvement and depreciation allowance deductible under section 14 and 16 respectively are as follows;

| | |
|---|-------------|
| During the year of assessment -2023/2024, the Cost of improvement | Rs. 400,000 |
| Written down value of the Asset as at the end of previous year (i.e. 22/23) | Rs. 800,000 |
| Allowable improvement cost (800,000 x 20%) | Rs. 160,000 |
| Excess improvement cost to be added to the depreciable basis | Rs. 240,000 |

Capital allowance to be granted for the remaining Years of Assessment

| Year of Assessment | Depreciation basis | No of Years | Depreciation for the year | Cumulative Depreciation |
|---------------------------|---------------------------|--------------------|----------------------------------|--------------------------------|
| 2021/2022 | 1,000,000 | 5 | 200,000 | 200,000 |
| 2022/2023 | 800,000 | 4 | 200,000 | 400,000 |
| 2023/2024 | 600,000 | 3 | 200,000 | 600,000 |
| 2024/2025 | 640,000 | 2 | 320,000 | 920,000 |
| 2025/2026 | 320,000 | 1 | 320,000 | 1,240,000 |

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following should be removed.

Accordingly, Repair and improvement expense made after the expiration of the no of years (in this case 5 years) will not be allowed as value for depreciation basis and number of years are zero.

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2.2.5.4.10 Marketing and Communication Expenses

following should be amended as follows.

(Applications for the year of assessment 2021/22 and 2022/23) In calculating a person's income from a business, marketing and communication expenses incurred by such person in the production of income during the year of assessment shall be deducted irrespective of whether they are of a capital nature or not.

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2.2.5.4.11 Other deductions

2nd point should be amended as follows

2. A person conducting banking business can deduct the specific provision for bad debt as per the directives made by Central Bank of Sri Lanka and but deductible amount from such provision has been specified by the Commissioner General by Gazette No. 2303/05 dated 25.10.2022.

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Exempt amounts (Third schedule)

1st paragraph should be removed and replaced as follows

on or after October 1, 2022, a dividend paid by a resident company-

- (i) which is engaged in any one or more of the following businesses and which has entered into an agreement with the Board of Investment of Sri Lanka -
 - (a) entrepot trade involving import, minor processing and re-export;
 - (b) offshore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing the same into Sri Lanka;

- (c) providing front-end services to clients abroad;
 - (d) headquarters operations of leading buyers for management of financial supply chain and billing operations;
 - (e) logistics services including bonded warehouse or multi-country consolidation in Sri Lanka;
- (ii) 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.

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Final Withholding payments (Section 88)

following should be amended as follows

Dividend paid by a resident company to a resident person shall be considered as final withholding payment.

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following should be removed

As per Inland Revenue Amendment Act, 10 of 2021, w.e.f. 01.01.2020, following dividends are exempted.

- 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 Advanced Income Tax under subsection (1A) of section 84A.
- A dividend paid by a resident company which is engaged in any one or more of the following businesses in accordance with the provisions of the PART IV of the Finance Act No. 12 of 2012 and within the meaning of an agreement entered into with the Board of Investment of Sri Lanka established under the Board of Investment of Sri Lanka Law, No.4 of 1978:-
 - (i) Entrepot trade involving import, minor processing and re-export;
 - (ii) 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;
 - (iii) Providing front end services to clients abroad;
 - (iv) Headquarters operations of leading buyers for management of financial supply chain and billing operations;
 - (v) Logistic services such as bonded warehouse or multi- country consolidation in Sri Lanka.
- Dividends from and gains on the realization of shares in a non-resident company where derived by any person with respect to a substantial participation in the non-resident company. (as defined the "substantial participation" in paragraph (r) to the Third Schedule to the IRA)

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2.3.2 Interest

Last sentence should be removed.

n interest payment should be deducted 5% as an Advanced Income Tax from 2023.01.01.

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Exempt amounts (Third schedule)

2nd point should be removed

- An amount equal to the interest or the discount paid or allowed, to any non-resident person or to any licensed commercial bank in Sri Lanka, by the issuer of any sovereign bond denominated in foreign currency, issued on or after October 21, 2008, by or on behalf of the Government of Sri Lanka; -

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Exempt amounts (Third schedule)

following should be added as 2nd point.

- Interest from 'Special Deposit Account'.

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Exempt amounts (Third schedule)

3rd, 4th and 5th points should be amended as follows

- The interest accruing to or derived by any person outside Sri Lanka on any loan granted to any person in Sri Lanka or to the Government of Sri Lanka.
- The interest accruing to or derived by any person on moneys lying to his credit in foreign currency in any foreign currency account opened by him or on his behalf, in any commercial bank or in any specialized bank, with the approval of the Central Bank of Sri Lanka.
- Any income earned by

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Exempt amounts (Third schedule)

6th, 7th points should be amended as follows

- Interest accruing to or derived by any 'welfare society'.
- Interest accruing to or derived by any multi-national company on any deposit in foreign currency in any domestic bank, if such deposit is maintained to cover its import expenditure for that year of assessment.

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2.3.10 Realization of Investment Assets (Capital gains)

2nd paragraph should be amended and added as follows.

For income tax purposes capital gain is treated as an investment income. Capital gain tax is discussed in chapter 6 also.

Accordingly, capital gains tax (CGT) is charged on the gains arise from realization of investment assets following rates are applicable w.e.f. 01.10.2023.

- for companies - 30%
- for other persons - 10%

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Special Note: Transitional Provisions [sec 203 (4)]

After the above heading following should be added.

Consideration Received

The consideration received for the realisation of an investment asset of a person shall be the amount received or receivable by the person in respect of such asset or the assessed value at the time of realisation, whichever is higher :

However, a tax official may determine the consideration received for an asset in terms of section 38 (1), if such tax official is of the opinion that the assessed value is not indicative of the market value of such asset.

“assessed value” means the value at the time of the realisation, certified by a professionally qualified valuer in a valuation report.

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Following should be removed.

Calculation basis of Investment Income

- Investment Income calculation for income tax purpose
 - ✓ Individuals - Cash Basis
 - ✓ Others - Accrual basis
- a person must calculate income from each investment separately
- Jointly owned investments - section 29
 - amounts to be included and deducted shall be apportioned among the joint owners in proportion to their interests in the investment.
 - Where the interests of joint owners cannot be ascertained they shall be treated as equal.

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following should be added.

Method of Accounting

- (1) Unless otherwise provided by the Inland Revenue Act, the timing of inclusions and deductions in calculating a person’s income shall be made according to generally accepted accounting principles.

- (2) An individual shall account for income tax purposes on a cash basis in calculating the individual's income from an employment or investment.
- (3) An individual or entity conducting business shall account for income tax purposes on an accrual basis.
- (4) A person shall account for income tax purposes the income from sources other than the sources referred above on either a cash or accrual basis, whichever properly computes the person's income.

Chapter 03 | Taxation of Individuals & Companies (Resident)

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3.2.2. Conditions in claiming qualifying payments

Personal Relief;

Should be amended the date as follows.

Rs.1,200,000 for each year of assessment commencing on or after 01.04.2023 for the individual who is not a trustee, receiver, executor or liquidator.

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should be removed the following

Relief for Interest; (available up to 31.12.2019 only)

- c. In the case of an individual who is a senior citizen (i.e. a resident 60 years old or above), interest income derived from a financial institution, Rs. 1,500,000 for each year of assessment, up to the total of the individual's interest income for the year.

Relief for Foreign Service Income; (available up to 31.12.2019)

- d. In the case of a resident individual or partner of a partnership who has earned income in foreign currency in Sri Lanka, from any service rendered in or outside Sri Lanka to any person to be utilized outside Sri Lanka, up to the total income of Rs. 15,000,000 for each year of assessment.

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following should be added

Relief for Investment in solar panels;

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Question 1 should be amended as follows

Mr. Perera has received Rs. 2,400,000 of business income and Rs. 600,000 of gain from the realization of a portfolio of unlisted shares that he has held as investment for the year of assessment 2023/24. Assume Mr. Perera has no any other income and is tax resident in Sri Lanka for that year of assessment.

What is the total relief he can enjoy in arriving at taxable income?

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Question 2 should be amended as follows

Ms.Fernando has received,

employment income Rs. 800,000

business income Rs. 200,000

investment income Rs. 400,000 (comprising Rs. 100,000 of gains from realization of investment assets and of rent Rs. 300,000)

Assume Ms.Fernando has no any other income and is tax resident in Sri Lanka for that year of assessment 2023/24.

What is her taxable income?

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answer 2 should be amended as follows

She is entitled to apply the basic relief against her employment income, business income and rent. She is not entitled to any relief in respect of the gains from realization of investment assets. Taxable income for year of assessment 2023/24 will be Rs. 125,000.

$(800,000 + 200,000 + 400,000) - 1,275,000 = 125,000$

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Question 3 should be amended as follows

Mr. Ananda has received Rs 3.5 million income from his employment for the year of assessment 2023/24. Assume Mr. Ananda has no any other income and is resident in Sri Lanka for that year of assessment.

What is his taxable income ?

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Y/A of Question 4 should be amended as follows

What is the taxable income of Gayan for Y/A 2023/24?

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1st paragraph of answer 4 should be amended as follows

He is entitled to apply the full Rs. 1,200,000 basic relief as well as the full rental income relief of Rs. 1,500,000 (25% of Rs. 6 million) against his investment income, resulting in taxable income of Rs. 3,300,000 from the investment income.

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Question 5 should be amended as follows

Sunimal has a taxable income of Rs. 3 million for the year of assessment 2023/24. In that year, he made a monetary donation of Rs. 200,000 as well as a valuable furniture worth Rs. 500,000 to an approved charitable institution. In addition, he also made a donation of Rs. 100,000 in cash and books worth Rs. 200,000 to the Buddhist and Pali University.

What is the aggregate qualifying payments of Sunimal for Y/A 2023/24?

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Answer 5 - Y/A should be amended as 23/24

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3.3.1.1 Tax rates for resident and non-resident individuals

following should be removed

As per Inland Revenue (Amendment) Act No. 10 of 2021, w.e.f. 01.01.2020 following rates are applicable for individuals.

| Taxable Income | Rate |
|------------------------------|-------------|
| - First Rs. 3,000,000 | 6% |
| - Next Rs. 3,000,000 | 12% |
| - Balance | 18% |

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3.3.2.2 Lower rates applicable for retirement benefits

Applicable lower rates are given below -

(Following rates are applicable only upto 31.12.2019)

(a) where the period of contribution or the period of employment is 20 years or less

| Total Income from retirement benefits | Tax Payable |
|--|--------------------|
| On the first Rs.2,000,000 | NIL |
| On the next Rs.1,000,000 | 5% |
| On the balance | 10% |

(b) where the period of contribution or the period of employment is more than 20 years

| Total Income from retirement benefits | Tax Payable |
|--|--------------------|
| On the first Rs.5,000,000 | NIL |
| On the next Rs.1,000,000 | 5% |
| On the balance | 10% |

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Following should be amended as follows

Following income tax rates are applicable on terminal benefits w.e.f. 01.01.2020.

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Following should be removed

3.3.2.3 Reduced rate of 14%

W.e.f. 01.04.2021, an individual's following gains and profits shall be taxed @ the maximum rate of 14%,

- consideration received in respect of gems and jewellery;
- amounts received on the supply of electricity to national grid generated by using renewable energy resources by any individual.

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following should be removed

Accordingly, "Predominant Rule" will not apply in future and based on the nature of taxable profits, relevant tax rate should be applied.

Gains from the realisation of investment assets (capital gains),-

those **gains**, shall be taxed at the rate of **30%**;

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following should be removed

As per Inland revenue Amendment Act No. 10 of 2021 w.e.f.01.04.2021 following are also included

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Following should be removed

Note : However, the word "**education**" is not defined in the Act.

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3.5 Format of a tax computation for a person

Y/A should be amended as 2023/2024

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Following should be removed

- (o) A dividend paid **prior to 01.01.2020** by a resident company to a member to the extent that dividend payment is attributable to, or derived from, another dividend received by that resident company or another resident company that was subject to withholding under section 84;

on or after January 1, 2020, a dividend paid by a resident company-

- (i) 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;
in this paragraph, "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 IR Act and income tax paid or payable on such dividend received by that company
- (ii) to a member who is a non-resident person;
- (iii) A dividend paid by a resident company

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Following should be amended as follows

- (w) Gains and profits received or derived from business (other than any gains from the realization of capital assets and liabilities of the business as calculated under Chapter IV of the IRA) by a person from following new undertakings (which is not formed by

splitting-up or re-construction of an existing undertaking) commenced on or after April 1, 2021 but prior to 01.04.2023. Tax exemption can be claimed during the specified period subject to the stated conditions.

- b) Five-year tax exemption period for any business commenced on or after April 1, 2021 but prior to 01.04.2023 by an individual after successful completion of vocational education from any institution which is standardized under TVET concept and regulated by the Tertiary and Vocational Education Commission.
- e) Five-year tax exemption period for any undertaking commenced on or after January 1, 2021 but prior to 01.04.2023 by any resident person who constructs and installs the communication towers and related appliances using local labours and local raw materials in Sri Lanka or provide required technical services for such construction or installation.
- f) Any undertaking for letting bonded warehouses or warehouses related to the offshore business in Colombo or Hambanthota ports, if such person has invested on such warehouses on or after April 1, 2021 but prior to 01.04.2023.

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3.6.2. Final withholding payments

Following should be removed

- Dividend paid (Prior to 01.01.2020) by a resident company to a resident person.
- Payment of interest to a resident individual (Other than interest paid to a senior citizen up to the relief threshold given.(i.e up to Rs.1.5Mn)
- Interest paid to a charitable institution.
- Amount paid as winnings from a lottery, reward, betting or gambling, other than amounts received in conducting a business consisting of betting and gaming , and
- Payment made to non-resident persons that are subject to withholding (other than payments derived through a Sri Lankan Permanent Establishment)

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Y/A of Question 06 should be amended as follows

Mr. Mohomed has following income for year of assessment 2023/24.

| | | |
|--------------------------------------|-----|-----------|
| Income from a Business | Rs. | 1,300,000 |
| Interest income from a fixed deposit | Rs. | 200,000 |
| Employment income | Rs. | 2,000,000 |

Calculate Mr.Mohomed's taxable income for the Y/A 2023/24.

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Y/A of Question 7 should be 23/24

Point 6 of question should be amended as follows

| | | |
|---|-----|---------|
| Net Dividends received - out of profits (WHT @ 15%) | Rs. | 277,500 |
|---|-----|---------|

Answer 7 should be amended as follows

| | Sch No | Rs. | Rs. |
|--|--------|-----------|--------------------|
| Employment Income | 01 | | 3,740,000 |
| Investment Income | 02 | | 821,500 |
| Child's income - assessed under son's name | | | - |
| Assessable Income | | | 4,561,500 |
| Less: Reliefs | | | |
| Personal relief | | 1,200,000 | |
| Relief for rent (600,000x25%) | | 150,000 | |
| | | | (1,350,000) |
| Qualifying payments | | | |
| Cash donation of Rs.100,000/- to National Kidney Fund. | | 100,000 | |
| Cash donation-village temple - Not allowed | | | (100,000) |
| Taxable income | | | 3,111,500 |
| First 500,000 x 6% | | 30,000 | |
| Next 500,000 x 12% | | 60,000 | |
| Next 500,000 x 18% | | 90,000 | |
| Next 500,000 x 24% | | 120,000 | |
| Next 500,000 x 30% | | 150,000 | |
| Balanced 611,500 x 36% | | 220,140 | 670,140 |
| Less -Tax Credits | | | |
| APIT deducted | | 45,000 | |
| Installment payments | | 10,000 | (55,000) |
| Balance tax payable | | | 615,140 |

Schedule 02-Investment income

| | | |
|---|-----------|----------------|
| Rent income from apartment | | |
| Rent Income (Rs. 50,000x12) | | 600,000 |
| Less:25% allowance could be claimed under reliefs | (150,000) | |
| Note :Ignored actual expenses incurred, to get the 25% allowance | | |
| Interest from treasury bills | | 221,500 |
| Dividends | | |
| Dividends - received from other companies | Exempt | - |
| Investment loss on sale of quoted shares -Not allowed to deduct from liable income since income is exempted | | - |
| | | 821,500 |

Question 8 should be amended as follows

ABC (Pvt) Ltd is a company engaged in the manufacturing of shoes to local market. Total turnover from the trade for the year ended 31.03.2024 is Rs. 558 million and the equity capital of the company as at 31.03.2024 is Rs. 10,000,000 (share capital + Reserves). The income statement for the financial year ended 31.3.2024 and other related details are as follows.

| | | |
|-------------------------------------|------------|-------------------|
| Gross profit from Trade | | 42,300,000 |
| Rent income | | 6,000,000 |
| Dividend - net | | 1,720,000 |
| Interest from 5 year treasury bonds | | 1,600,000 |
| Loss from disposal of Motor lorry | | (1,200,000) |
| | | 50,420,000 |
| Less: | | |
| Administration Expenses | 28,800,000 | |
| Distribution Expenses | 5,380,000 | |
| Financial Expenses | 7,000,000 | 41,180,000 |
| Net profit Before Tax | | 9,240,000 |
| | | |

Details of the expenses;

| | | |
|---------------------------------|------------|------------|
| Administration Expenses: | | |
| Salaries and Wages | 10,336,000 | |
| Electricity | 1,800,000 | |
| Telephone | 300,000 | |
| Management fee | 200,000 | |
| EPF and ETF | 1,045,000 | |
| Rent | 1,344,000 | |
| Repairs and improvements | 660,000 | |
| Entertainment expenses | 210,000 | |
| Provision for Depreciation | 4,745,000 | |
| Audit fees | 380,000 | |
| Donation | 1,000,000 | |
| Office expenses | 4,580,000 | |
| Advertising | | 28,800,000 |
| | | |
| Distribution Expenses: | | |
| Bad and doubtful debt | 480,000 | |
| Advertisement | 90,000 | |
| Vehicle Maintenances | 210,000 | |
| Travelling & transport | 4,600,000 | 5,380,000 |

| | | |
|---|-----------|-----------|
| | | |
| Finance Expenses: | | |
| Interest paid on Bank loan obtained in Y/A 21/22, loan balance as at 31.03.2023 was Rs. 44,900,000. | 6,000,000 | |
| Interest paid on Lease | 1,000,000 | 7,000,000 |

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3rd point should be amended as follows

3. A motor Lorry purchased in the year of assessment 2020/2021 has been disposed during the year for Rs. 1,300,000.

11th point should be removed

11. ESC paid for Y/A 2017/18 amounting to Rs.2,200,000 was written off due to lapse of claimable period.

Y/A should be 23/24

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Answer 8 should be amended as follows

Tax Computation for the Year of assessment 2023/24.

| | | | | | + | - |
|--|------------------------|-------------|---------|---------------|-----------|-----------|
| | | | | | Rs. | Rs. |
| Profit before Tax | | | | | 9,240,000 | |
| Rent income | | | | | | |
| Dividend - Investment Income | | | | | | 1,720,000 |
| Interest from Treasury Bond - Investment Income | | | | | | 1,600,000 |
| Accounting loss from disposal of lorry | | | | | 1,200,000 | |
| Balancing allowance from Motor lorry | | | | | | |
| Profit/loss= 1,300,000 - (4,000,000 - (4,000,000x20% x 3) = 1,300,000 - 1,600,000 loss = (300,000) | | | | | | 300,000 |
| Accounting Depreciation | | | | | 4,745,000 | |
| Amortisation | | | | | 400,000 | |
| <u>Capital Allowances</u> | <u>Year of Aquired</u> | <u>cost</u> | | | | |
| Building | 17/18 | 15,000,000 | 10% | | | 1,500,000 |
| Machinery | 17/18 | 21,000,000 | 33.33% | fully claimed | | - |
| Machinery | 23/24 | 3,675,000 | 5 years | | | 735,000 |
| Computers | 17/18 | 1,450,000 | 25% | fully claimed | | |
| Computers | 23/24 | 120,000 | 5 years | | | 24,000 |

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| | | | | | | |
|---|-----------|---------------------|----------------------------------|---------------|------------|-----------|
| Locally dev. Software | 17/18 | 500,000 | 100% | fully claimed | | 0 |
| Disposed Lorry | 18/19 | 4,000,000 | no CA | | | - |
| Vehicles - Balance | 17/18 | 2,650,000 | 20% | fully claimed | | |
| Leased lorry | 23/24 | 6,400,000 | 5 years | | | 1,280,000 |
| Car | 23/24 | 2,000,000 | no CA | | | - |
| Furniture | 17/18 | 1,240,000 | 20% | fully claimed | | |
| Furniture | 23/24 | 50,000 | 5 Years | | | 10,000 |
| Intangible asset | 23/24 | 2,000,000 | 20 years | | | 100,000 |
| Repairs Rs.60,000- allowed | | | | | | - |
| Cost of construction - Capital Nature | | | | | | 600,000 |
| <u>Improvement</u> | | | | | | |
| Tax written down value as at 31.03.2023 | | | | 6,000,000 | | |
| | 5% of WDV | 300,000 | | | | |
| Actual cost | | 600,000 | | | | 300,000 |
| Gross Rent paid to manager's residence | | | | | 504,000 | |
| Monthly Remuneration of Sale Manager | | | | | 170,000 | |
| Housing benefit for Employment | | | | | | |
| Provision for Bad and doubtful debt | | | | | 280,000 | |
| Written off - fully allowed | | | | | | - |
| Entertainment expenses - not allowed | | | | | 210,000 | |
| Advertising - allowance | | | | | | |
| Donation | | | | | 1,000,000 | |
| Interest paid (application of section 18) | | | | | | |
| Share Capital + Reserves | | | | | 10,000,000 | |
| A X B (B=4) | | | (10,000,000 x 4) = 40,000,000 | | | |
| Interest paid | | | | | 7,000,000 | |
| Loan borrowed | | 44,900,000 | | | | |
| Lease capital (6,400,000 - 1,300,000) | | 5,100,000 | | 50,000,000 | | |
| (assume no other creditors) | | | | | | |
| Finance cost attributable to Financial Instruments | | | 7/50 = 0.14 | | | |
| Allowable amount = (A x B x attributable rate) | | 40,000,000 x 0.14 | | 5,600,000 | | |
| Not allowable (C/F) | | 7,000,000-5,600,000 | | | 1,400,000 | |
| Assume all other expenses incurred in production of Income and uncontrolled transactions. | | | | | | |

| | 19,579,000 | 7,569,000 |
|---|-------------------|------------------|
| Business Profit before adjusting losses | 2,010,000 | |
| less : B/F losses | (5,000,000) | |
| Business Income | 7,010,000 | |
| Investment Income - (note 1) | 1,600,000 | |
| Assessable Income | 8,612,000 | |
| Qualifying payments | | |
| limited to 1/5 of TI or Rs. 500,000 | (500,000) | |
| Taxable Income | 8,112,000 | |
| Tax liability 8,112,000 x 30% = | 2,433,600 | |
| Less - Tax Credits | - | |
| Balance Tax Payable | 2,433,600 | |

Note 1 - Investment Income

| | |
|----------------------|------------------|
| Dividend - final tax | |
| Interest | 1,600,000 |
| Investment Income | <u>1,600,000</u> |

Chapter 4 | Taxation of Miscellaneous Undertaking

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Question 01 and Answer 01 should be amended as follows

Question 01

Mr. A and Mr. B are equal partners in a partnership. For the year of assessment 2023/2024, the partnership has business income of Rs. 20 million and rent income of Rs. 500,000 received. Calculate tax payable by partnership & Mr. A.

Answer 01

| | | |
|--|---|----------------|
| Business income of the partnership | = | Rs. 20,000,000 |
| Investment income of the partnership | = | Rs. 500,000 |
| Assessable income | | Rs. 20,500,000 |
| Less Allowance | = | - |
| Taxable income | = | Rs. 20,500,000 |
| Taxable Income not exceeding Rs. 1,000,000 at 0% | = | Rs. 0 |
| Tax @ 6% [(20,500,000 - 1,000,000) * 6%] | = | Rs. 1,170,000 |
| Partnership income share of Mr. A | = | Rs. 10,250,000 |
| Partnership income share of Mr. B | = | Rs. 10,250,000 |

Tax payable by Mr. A

| | | |
|---------------------------------|---|-----------------|
| Partnership share of Mr. A | = | Rs. 10,250,000 |
| Less: Allowance for individuals | = | Rs. (1,200,000) |
| Taxable Income | = | Rs. 9,050,000 |

Tax Payable

| | | |
|--|---|-----------------------------|
| Upto Rs 2,500,000 | = | Rs. 450,000 |
| Balance @ 36% | = | Rs. <u>2,358,000</u> |
| Total tax | = | Rs. 2,808,000 |
| Less: credit for partnership tax (1,170,000 x 50%) | = | Rs. (585,000) |
| Balance payable | = | Rs. <u><u>2,223,000</u></u> |

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4.2.2.1.1 Taxation of trusts

final paragraph shoeld be amended as follows.

Trust should pay tax on Gains from realization of investment assets at 10% and at 30% (For Y/A 23/24) on other taxable income.

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Y/A of question 02 should be 23/24.

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Answer 01 should be amended as follows

| Person | Rental income | Deductions | Relief | Taxable income |
|----------------------|---------------|------------|-----------|----------------|
| Varuni (individual) | 10 million | 250,000 | 1,200,000 | 8,550,000 |
| Thanuja (individual) | 10 million | 250,000 | 1,200,000 | 8,555,000 |
| Trust (entity) | 20 million | 500,000 | - | 19.5 million |

Note: Ms Weerakkodi will have to account for tax on the trustee fee separately as income from business in her own personal capacity.

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4.3.2.1 Unit Trust not carrying out an "eligible investment business"

following should be added as the final paragraph.

Budget Proposal 2024

A mandatory requirement to be introduced to furnish information such details of income, exempt amounts and withholding tax details as specified by the Commissioner General, by a unit trust to each unit holder on or before August 30th following the end of the year of assessment.

Where a Unit Trust does not comply with the above, it will be deemed to be a Unit Trust that does not conduct an eligible business, in which case, it will be taxed as a company and not as a trust.

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4.4 Non-governmental organizations (NGO)

(b) 1st point should be amended as follows

- As per section 68, a non - government organization shall pay an additional tax on 3% of amounts received in each year of assessment by way of grant, donation or contribution or in any other manner at the rate of 30% (for Y/A 23/24)

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4.4 Non-governmental organizations (NGO)

Last sentence should be removed.

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Question 03 should be amended as follows

XYZ Non-governmental organization has received the following income for the year of assessment 2023/2024.

| | |
|--|---------------|
| Donations received from foreign donors | Rs. 3,000,000 |
| Interest from Fixed Deposits | Rs. 350,000 |

Calculate the tax liability of NGO for the Y/A 2023/2024.

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Question 04 should be as follows.

ABC Charitable Institution has below income sources for the Y/A 2023/2024.

| | |
|--|-------------|
| Rent income | Rs. 240,000 |
| Business Income | Rs. 125,000 |
| Gain on realization of investment assets | Rs. 200,000 |

Calculate the tax liability of Charitable Institution for the Y/A 2023/2024.

Chapter 05 | Obligations and Procedures

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5.1.1.2 How to calculate

following point should be removed.

- The income tax payable by a person for the year of assessment commencing on 01 April 2022, shall be calculated separately for two periods of the year of assessment as first six months and second six months on a pro - rate basis.

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Y/A of question 01 and answer 01 should be 23/24.

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5.2.1.1 Who shall furnish return of Income?

- **Every person chargeable with tax [Section 93 (1)]**

second sentence should be as follows.

i.e. for Y/A 2023/24 return should be submitted on or before 30.11.2024.

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5.2.2 Registration by any person (Section 102)

Following should be added as the second point

As per Gazette notification dated 31st May 2023, with effect from January 01, 2024, any individual who is at the age 18 years or more, or who attains the age of 18 years on or after January 01, 2024, it is mandatory to register with the Inland Revenue Department and obtain a TIN (Taxpayer Identification Number).

Persons who do not obtain registration, will be registered by the Inland Revenue Department and shall be subjected to a penalty not exceeding Rs. 50,000/-.

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Y/A of question 02 and answer 02 should be 23/24

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5.3.5 Time Bar Provisions (Sec. 135)

2nd paragraph should be as follows

- In any other case, within 30 months of
 - (i) for a self assessment date that tax payer filed the self assessment return.
 - (ii) for any other assessment date that the notice of assessment is served to the tax payer.

for any Y/A prior to 01.04.2023,

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5.3.5 Time Bar Provisions (Sec. 135)

Following should be added after the point (ii)

Effective From 01.04.2023, the Assistant Commissioner may further amend the original assessment to which the amended assessment relates, within-

- (a) 30 months of:
 - (i) for a self-assessment, the date that the taxpayer filed the self-assessment return;or

- (ii) for any other assessment, the date on which the notice of the assessment is served on the taxpayer or
- (b) a period of one year after the notice of the amended assessment is served on the taxpayer, whichever occurs later.

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5.3.6 Application for making an amendment to a self-assessment (Section 136)

point (b) should be as follows

(b) within the period specified in section 135. i.e. - before expiration of time bar (as discussed under 5.3.5 above) (upto Y/A 21/22)

(w.e.f. 01.04.2023, within a period of 12 months from self-assessment return was filed.)

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5.4.2 Administrative review (Section 139)

2nd point should be as follows

- A request for review shall be made to the Commissioner General in writing not later than 30 days after the taxpayer was notified of the decision, and shall specify in detail the ground upon which it is made.

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5.4.2 Administrative review (Section 139)

Following should be added as the last paragraph

w.e.f. 08.05.2023, The Commissioner-General shall, notify his decision and the reason for the decision within a period of two years from the date on which such request for review is received by the Commissioner- General. Where such decision is not notified within such period, the request for review shall be deemed to have been allowed, unless an appeal has been preferred to the Tax Appeals Commission.

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5.6 Refunds (Section 150)

2nd point should be amended as follows

- CGIR shall refund the amount against the taxpayer's assessed liability or payable amounts of tax, interest, late fees, or penalties under the Act.

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5.6 Refunds (Section 150)

Following should be added to the 3rd point

at the request of the taxpayer, set off sixty percent of the refundable amount against the subsequent income tax payable by the taxpayer, prior to a tax audit on the refund claim.

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5.6 Refunds (Section 150)

Following should be added to the 4th point

Effective from 01.04.2023, if the taxpayer is a resident individual and the refund claim is not exceeding Rs. 100,000, the Commissioner-General shall pay the refund amount due, within three months of the date of the refund claim made by such resident individual, prior to a tax audit.

Provided that, if such resident individual is a senior citizen who is not an instalment payer and his refund claim is not exceeding Rs. 25,000 for any quarter ending on the thirtieth day of June, thirtieth day of September, thirty first day of December and thirty first day of March, such refund claim shall be paid within three months of the date of the refund claim made by such resident individual, prior to a tax audit.

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Answer 4 (ii) should be amended as follows

- (ii) Refund can be set off against assessed liability or payable amounts of tax, interest, late fees, or penalties as advanced payments against the tax due for the next 6 months, unless the tax payer objects.

Chapter 06 | Withholding Tax, Capital Gain Tax and Case Laws Relating to Taxation

-Page 113-

6.1.2.1 Withholding from Remuneration of Employees by Employers (Section 83A)

1st sentence should be removed.

2nd paragraph should be as follows

As per Sec. 83A (1A), an employer shall deduct an Advance Personal Income Tax with effect from January 1, 2023 on any payment which falls under employment income, as specified by CGIR-

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6.1.2.1 Withholding from Remuneration of Employees by Employers (Section 83A)

point (a) and (b) should be removed.

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Following table should be amended as follows

| Description | Applicable Table |
|--|------------------|
| Monthly tax deduction from; (a) regular profits from the employment | Tax Table 01 |
| (b) Tax on Lump-sum payments (Eg. Bonus) | Tax Table 02 |
| (c) Once-and-for-all payment (Terminal Benefits) | Tax Table 03 |
| (d) where the payment received by the Non-Resident employees who are non-citizens in Sri Lanka | Tax Table 04 |
| (e) where the monthly cumulative gains and profits of an employee from a primary employment is less than 100 000 but the cumulative gains and profits from the primary employment up to any month in the year of assessment exceeds LKR 1 200 000 due to payment of higher remuneration in certain months. | Tax Table 05 |
| (f) payment or reimbursement of the employee's tax liability on his income from employment by the employer (tax on tax rates) | Tax Table 06 |
| (g) Tax from secondary employment | Tax Table 07 |

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6.1.2.1.2. Primary Employment

2nd point should be amended as follows

- An employee shall furnish an employer, with a declaration nominating the employment as the employee's primary employment, where the monthly regular profits from such primary employment exceeds or deem to be exceed Rs.100,000 per month or Rs. 1,200,000 per year of Assessment except any employee who is having one employment.

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6.1.2.2 Withholding on Investment Returns (Section 84 & 84A) & Service Fees (Section 85)

Following should be replaced as follows

- In terms of section 84, 84A and 85 of the IRA as amended, with effect from January 1, 2023, a person shall deduct WHT on following payments which has a source in Sri Lanka except the exempt amounts, at the relevant WHT rates.

| Payment | Relevant WHT rate (%) |
|---|-----------------------|
| Payments to non-resident person with respect to land, sea, air transport or telecommunication service in terms of section 85(2) and Extraordinary Gazette Notification No. 2064/51 dated April 01, 2018 | 2% |
| Sale price payable to the seller of any gem sold at an auction conducted by the National Gem & Jewellery Authority | 2.5% |

| | |
|---|---------------------|
| Service fee payments to a resident individual who is not an employee of the payer (if aggregate payment exceeds Rs. 100 000 per calendar month) - (a) for teaching, lecturing, examining, invigilating or supervising an examination (b) as a commission or brokerage to a resident insurance, sales or canvassing agent; or (c) 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 | 5% on full payment |
| Interest or discount paid | 5% |
| Rent (defined in section 195 of the IRA) payments to a resident person (if aggregate amount exceeds Rs. 100 000 per calendar month) | 10% on full payment |
| Amounts pays as winnings from a lottery, reward, betting or gambling | 14% |
| Charge, natural resource payment (defined in section 195 of the IRA) or premium | 14% |
| Royalty (defined in section 195 of the IRA) | 14% |
| Rent payments to a non-resident person | 14% |
| Service fee or an insurance premium payments to a non-resident person | 14% |
| Dividend | 15% |

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Following should be removed

6.1.2.2.1 Types of Payments and WHT Rates

- i. Payments of any amounts as winning from lottery, reward, betting or gambling to any person is liable to WHT at 14%. However, any winning from a lottery, the gross amount of which does not exceed Rs. 500,000 is not subject to WHT.
- ii. Sale price payable to the seller of any gem sold at an auction conducted by the National Gem & Jewellery Authority is liable to WHT at 2.5%.
- iii. Payment of any amounts by a resident person as charge, natural resource payment, rent, royalty, premium, retirement payment and other similar payments (excluding exempt amounts) which has a source in Sri Lanka, paid or payable to any non-resident person is liable to WHT at 14%.
- iv. Payments of any amounts as interest (excluding exempt interest), discounts which has source in Sri Lanka, payable to any non-resident person is liable to be deducted of WHT at 5%.
- v. Payments by a resident person to a non-resident person with respect to land, sea, air transport or telecommunication service in terms of section 85(2) and Extraordinary Gazette Notification No. 2064/51 dated April 01, 2018 is liable to WHT at 2%, subject to the provisions of relevant Double Tax Avoidance Agreement (DTAA).

Advance Income Tax (AIT)

With effect from April 1, 2020, the 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.

1. Declaration to the Withholding Agent (WHA)

The resident person who receives or derives any amount of above payments (excluding exempt amounts) which has source in Sri Lanka from the WHA/Payer, may make a declaration in which he may express his consent to deduct AIT to the payer.

2. Rates of Deduction

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

i. If the recipient is an individual

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

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

| Type of Entity | Tax Rate | Amount of Payment (Rs.)* |
|---|----------|--------------------------|
| Partnership | 6% | |
| On dividend to resident company | 14% | |
| Charitable Institution | 14% | |
| Employees Trust Funds, Provident Fund, Pension Fund or Terminal Funds | 14% | |
| Other Resident Entities Including Resident Company | 30% | |

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

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6.1.3 Obligations of withholding agents (WHA)

5th point should be replaced as follows

- All the WHA who is deducting Withholding Tax or Advance Income Tax shall be a registered Withholding Agent under the Commissioner General of Inland Revenue. If the registration has not obtained, the person is required to obtain a registration number from the Commissioner General not later than 30 days prior to the commencement of deduction of WHT / AIT.

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following should be removed

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

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

following points should be removed

- ii. For the purpose of deduction of AIT, separate registration is not required to any WHA, he can continue under the same registration of WHT Agent.
- iv. Schedules to the Annual Statements should be submitted on WHT and AIT deducted and such schedules are required to be furnished in electronic form. However, if number of WHT / AIT deducted persons (taxpayers) are less than 20, hard copies may be submitted.

Chapter 07 - Other Taxes

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Chapter Introduction

following point should be added

- Social security contribution levy

-Page 134-

“Taxable period” means:

following should be amended as follows

- where any person registered for SVAT schemes as RIP (exports);

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following should be removed

- where any person registered with Textile Quota Board (TQB) or Export Development Board (EDB) who makes supplies to an exporter registered with TQB or EDB.

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Question 04 and answer 04 should be amended as follows

Question 04

What is the threshold of supply values applicable for compulsory VAT registration from the date of 01.10.2022?

Answer 04

| | |
|-----------|------------|
| Quarterly | Rs. 20 Mn. |
| Annually | Rs. 80 Mn. |

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following note should be removed

Note : w.e.f 01.12.2019, Supply of services by a hotel, guest house, restaurant or other similar businesses providing similar services, registered with the Sri Lanka Tourism Development Authority is treated as zero rated if 60% of the total value of the inputs of prior period are sourced from local supplies / sources, is liable at the rate of 0%.

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7.2.3 Exempt Supplies (Section 8)

should be amended as follows

Exempted supplies are listed in the First Schedule to the act. Few exempt supplies extracted from the schedule are given below;

- (a) Supply or import of,
 - Wheat, wheat flour
 - Infant milk powder
 - Bio fertilizer
 - Pharmaceutical products, Drugs
- (b) The supply of,
 - Educational services by any person
 - Public passenger transport services other than air, water transport or transport of tourists
 - Electricity
 - Locally manufactured handloom textiles
 - Unprocessed agricultural, Horticultural or fishing products produced in Sri Lanka

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Tax Rates (Section 2, 7, & 22)

following should be amended as follows

Rates of VAT

| | |
|---|-----------------------|
| Zero rate | 0% (Section 7) |
| Standard rate (from 01.10.2022 - 31.12.2023) | 15% |
| From 01.01.2024 | 18% |

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Question 07 and answer 07 should be as follows

Question 07

- (i) What do you mean by the terms "output tax" and "input tax"?
- (ii) What are the VAT rates applicable for any period after 01.01.2024.

Answer 07

- (i) Output tax means the tax computed on the value of taxable supplies.
Input Tax means the VAT paid on purchase of goods and on services consumed.
- (ii) Applicable VAT rates on or after 01.01.2024;
 - (a) Zero rate
 - (b) Standard rate of 18%
 - (c) Special rate based on the pieces of product

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7.3.4.1 Payment of Tax (Section 26)

following should be removed

The tax calculated for each taxable period on or after 01.01.2013 but prior to 01.10.2019 should be discharged as follows;

Manufacturers;

- Monthly taxable periods -
On or before the 20th day of the month following the end of the taxable period.
- Quarterly taxable periods -
On monthly basis on the 20th of the second month and 20th of the third month of the quarter and balance by the 20th of the month immediately after the quarter.

Non-manufacturers;

Should be paid on every 15 days basis as follows;

- For 1st 15 days of each month by last date of that month.
- For balance period of each month by 15th of immediately following month.

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Question 09 and Question 10 should be amended as follows

Question 09

What are the due dates of settling VAT for the quarter ending 31.03.2024.

Question 10

The following information is extracted from the books of accounts of M/S Hot Hot (Pvt) Ltd. engaged in garment finishing industry for the taxable period ended 31.03.2024. All transactions given below are inclusive of VAT, where ever applicable.

Output

| | |
|--|------------|
| Supplies to VAT registered persons; Liable for VAT | 33,062,500 |
| Supplies to non VAT registered persons; Liable for VAT | 50,312,500 |

Input

| | |
|---|------------|
| Purchase of Raw materials supported with Tax Invoices | 54,625,000 |
| Purchase of Raw materials not supported with Tax Invoices | 3,360,000 |
| Electricity | 1,680,000 |
| Staff Salaries & Wages | 56,000,000 |

You are required to compute the following;

VAT payable for the quarter ended 31.03.2024

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Answer 9 should be amended as follows

- 20.02.2024
- 20.03.2024
- 20.04.2024

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Answer 10 should be as follows

(i) M/S Hot Hot (Pvt) Ltd.

Computation of VAT for the Quarter Ended 31.03.2024

Output VAT

On supplies liable at standard rate of 18%

$$(33,062,500 + 50,312,500) \times \frac{18}{118} = 12,718,220$$

Less: Input VAT

Paid at Standard Rate:

| | | |
|--------------------------------------|---------------------------|--------------|
| Raw materials | (54,625,000 x 18 / 118) = | 8,332,627 |
| Raw materials without tax invoices – | | Not allowed |
| Electricity | | VAT Exempted |
| Salaries & Wages | | No VAT |

Sub Total

Amount Claimed for the Quarter; **(8,332,627)**

Balance Payable (Due on or before 20.04.2024) 4,385,593

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Answer 11 should be as follows

Value of Supplies & Input VAT;

| | Value | VAT |
|---|---|-------------------------|
| Liable at Standard Rate 18% | 70,656,778 | 12,718,220 |
| Exports | 6,800,000 | - |
| Sub Total | <u>77,456,778</u> | <u>12,718,220</u> |
| Exempted Supplies | 16,995,000 | - |
| Total | <u>94,451,778</u> | <u>12,718,220</u> |
| Input Tax attributable to liable supplies | $\frac{77,456,778}{94,451,778} \times 12,718,220$ | (6,833,311) |
| Balance Tax to be paid | | <u>5,884,908</u> |

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7.6.1.4 Filing of VAT Return by Financial Institutions

2nd paragraph should be as follows

Taxable period shall be twelve months.

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7.6.1.5 should be as follows

7.6.1.5 Tax Rate - w.e.f. 01.01.2022 - 18%

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Y/A of exercises should be 2023

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last table should be amended as follows

| | |
|-----------------------------------|------------------------------------|
| Quarter ended 31st March 2023 | - on or before 30th June 2023 |
| Quarter ended 30th June 2023 | - on or before 30th September 2023 |
| Quarter ended 30th September 2023 | - on or before 31st December 2023 |
| Quarter ended 31st December 2023 | - on or before 31st March 2024 |

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Following no te should be removed

Note : Considering the impact of the Easter Sunday attack and the Covid 19 outbreak a grace period of 10 months has been granted for TDL payments from 1st July 2019 to 30th April 2020, recovering from 20 equal instalments starting from 01st May 2020 ending 31st December 2021, without penalties.

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Y/A of Exercises should be 2023

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Exercises

Y/A of 3rd question should be 2023

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Solutions

3rd solution should be as follows

3. Date of filing return - on or before 31.01.2024
Tax payment dates -
 - 20.11.2023
 - 20.12.2023
 - 20.01.2024