

Circular to Clients**Proposed Tax Reforms**

The Bill to amend the Inland Revenue Act No.24 of 2017 was issued on 11th October 2022. The Bill would become law upon the certification of the Hon.Speaker.

According to the Bill the significant changes to income tax are as follows,

01. Personal Income Tax**01.01 Tax free Allowance applicable on resident and non-resident citizen**

- First 06 months of Y/A 2022/2023 (01/04/2022 -30/09/2022) - Rs.1,500,000
- Second 06 months of Y/A 2022/2023 (01/10/2022 -31/03/2023) - Rs.600,000
- From Y/A 2023/2024 (With effect from 01/04/2023) - Rs.1,200,000

01.02 Income Tax rates applicable on the taxable income of a resident or non-resident individual for the Year of Assessment 2022/2023

- I. Taxable income for the **first 6 months** period of the Y/A 2022/2023 (1/4/2022 - 30/09/2022).

Taxable Income	Rate
First Rs.1,500,000	6%
Next Rs.1,500,000	12%
Balance	18%

- II. Taxable income for the **second 6 months** period of the Y/A 2022/2023 (1/10/2022 - 31/03/2023)

Taxable Income	Rate
First Rs. 250,000	6%
Next Rs.250,000	12%
Next Rs.250,000	18%
Next Rs.250,000	24%
Next Rs.250,000	30%
Balance	36%

- III. Tax rate applicable on the taxable income of a resident or non-resident individual for any Y/A commencing from 1 April 2023. (Y/A 2023/2024)

Taxable Income	Rate
First Rs. 500,000	6%
Next Rs.500,000	12%
Next Rs.500,000	18%
Next Rs.500,000	24%
Next Rs.500,000	30%
Balance	36%

01.03 Expenditure relief

Resident individual expenditure relief would be restricted to Rs. 600,000 for the first six months of the year of assessment 2022/2023 and expenditure relief will not apply commencing from 1st October 2022.

01.04 The maximum rate of 14% applicable on individual income from following has been removed w.e.f. 1 October 2022

- I. Consideration received in respect of gems and jewellery
- II. Amounts received on the supply of electricity to national grid generated by using renewable energy resources by any individual

02. Advance Personal Income Tax (APIT)

- APIT on employment income as specified by the CGIR will be applicable in relation to all the employees irrespective of the consent given by the employee with effect from the date of the **commencement** of the Amendment Act.
- Filing of Personal Income Tax Return is not required by an individual whose tax payable for the year of assessment relates exclusively to income from employment where the employer has deducted Advance Personal Income Tax.
- Enhance the list of exclusions from the individual's gains and profits from an employment by excluding any retirement payments, where the contribution has already been considered for income tax purposes by the employee.

03. Corporate Income Tax

03.01 Standard Income Tax Rate

- Y/A 2022/2023 – First six months (i.e 01/04/2022 - 30/09/2022) – 24%
- Y/A 2022/2023 – Second six months (i.e 01/10/2022 -31/03/2023) - 30%
- Y/A 2023/2024 onwards (With effect from 01st April 2023) - 30%

03.02 Removal of concessionary tax rates

The concessionary tax rates of 14% and 18% applicable on identified gains and profits will not be applicable w.e.f. 01st October 2022. (exports, tourism, healthcare, education, construction, renewable energy, manufacturing etc. as well as SMEs)

03.03 The income tax rate of 40%

The higher rate of 40% will continue to apply as follows,

- I. Gains and profits from conducting betting and gaming
- II. Gains and profits from the manufacture and sale or import and sale of any liquor or tobacco product

03.04 Tax rate for Trusts

- Y/A 2022/2023 – First six months (i.e 01/04/2022 - 30/09/2022) – 18%
- Y/A 2022/2023 – Second six months (i.e 01/10/2022 -31/03/2023) - 30%
- Y/A 2023/2024 onwards (With effect from 01st April 2023) - 30%

03.05 Tax rate for Unit Trusts or Mutual Funds, non-governmental organization

- Y/A 2022/2023 – First six months (i.e 01/04/2022 - 30/09/2022) – 24%
- Y/A 2022/2023 – Second six months (i.e 1/10/2022 -31/03/2023) - 30%
- Y/A 2023/2024 onwards (With effect from 1 April 2023) - 30%

03.06 Capital Gain Tax for Corporates

Capital gain tax rate applicable on realization of investment asset by the companies will be increased to 30%, w.e.f. 1 October 2022. Prevailing rate is 10%.

04. Deductibility of expenses in determining the Assessable Income

04.01 Disallowable expenses

Taxes that are not allowed in calculating the Assessable Income is extended to cover any tax or levy which is not allowed in terms of any other written law.

04.02 Deduction for improvements

Where an improvement is carried out for a depreciable asset, where capital allowance has been fully claimed, the improvement value could be claimed as follows.

- Building, structures and similar work of permanent nature (class 4 assets) – 12 Years
- Other Depreciable Assets (other classes) – 3 Years

04.03 Capital Allowances

The claiming of capital allowance has been limited to the cost of the depreciable asset.

04.04 Loss Claim

Loss from business: Claim on account of a loss in relation to the business where the tax rate has been substantially increased, the losses incurred at lower rates will not be considered as being taxable at a reduced rate. This proposal would allow companies with unrelieved losses prior to proposed changes to claim such losses against profits under the amended tax rate.

Loss from investments : Claimability of unrelieved losses from an 'investment' is limited for the succeeding 6 Y/A's from the Y/A it is incurred

Loss claimability against Capital Gains: Gain from the realization of investment asset cannot be reduced by any loss

05 Advance Income Tax (AIT)

Mandatory AIT deductions will be applicable on the payment of interest, charges, annuities, a royalty, technical service fee, or similar payment paid by the Government of Sri Lanka including such payments made by any institution on behalf of the Government of Sri Lanka will be considered to have a source in Sri Lanka.

- Rent equal or exceeding Rs.100,000 per month made to a resident person – 10% (on total rent)
- Interest or discount – 5%
- Dividend paid – 15%
- All other payments – 14%

06 Withholding tax on service payments

The following withholding tax rates applicable on service fee payments with effect from the date of the commencement of this Bill/Act.

Payment of service fee or an insurance premium with a source in Sri Lanka to a non resident – withholding at the rate of 14% (final tax)

Following payments exceeding Rs.100,000 per month to a resident individual (who is not an employee of the payer) – withholding at the rate of 5%

- Service fee for teaching, lecturing, examining, invigilating or supervising an examination;
- Service fee as a commission or brokerage to a resident insurance, sales or canvassing agent;
- For services provided by 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.

07. Final withholding payment

Dividend paid by a resident company is considered as a final withholding payment with effect from the date of the commencement of the Amendment Act. However though interest income is subject to 5% WHT it is not falling under final withholding payment.

08. Exemptions

08.01 Introduction of Exemptions

- I. Dividend payment attributable to, or derived from, another dividend received by that resident company or another resident company which is subject to AIT w.e.f. 01st October 2022
- II. Gain from realization of capital asset used in business or investment or a liability by an entity fully owned by the Government of Sri Lanka (GOSL), where such gain was made due to any decision by the GOSL which is being essential for the economic development of Sri Lanka and subject to the prior written approval of the Minister w.e.f. 01st April 2022

08.02 Withdrawal of Exemptions

Removed with effect from **01st October 2022**

- Dividend paid by a resident company to a member who is a non-resident person
- Gain from realization of land or building which was sold, exchanged or transferred to a real estate investment trust (REIT)
- Dividend and gains on the realisation of units or amounts derived as gains from the realization of capital assets of a business or investment by a unit holder, from REITs

Removed with effect from **01st April 2023**

- Gains and profits derived from providing information technology and enabled services
- Any vocational education programmes of any Vocational Education Institution
- Any business of export of gold, gems or jewellery or from the business of cutting and polishing of gems which are brought to Sri Lanka and exported after such cutting and polishing, where such gains and profits earned in foreign currency are remitted through a bank to Sri Lanka
- Gains and profits from business of the following new undertakings;
 - An undertaking which is involved in the sale of construction materials recycled
 - Business commenced by an individual after successful completion of vocational education from any Vocational Education Institution
 - An undertaking commenced by a resident person for the purpose of manufacturing of boats or ships in Sri Lanka
 - Any renewable energy project established with a capacity to produce not less than 100 Mega Watts of solar or wind power
 - An undertaking by any resident person who constructs and installs communication towers and related appliances
 - An undertaking for letting bonded warehouses or warehouses related to the offshore business in the Colombo and Hambanthota Ports

09. Administrative review

- **Time period to request for Administrative Review:** 30 day period provided to make a request for an administrative review to CGIR has been reduced to 14 working days after the taxpayer is notified of the decision, w.e.f. 1 April 2023.
- **Time period to issue acknowledgement by the CGIR:** 30 day period provided to CGIR for acknowledgment of receipt of an administrative review has been reduced to 14 working days, w.e.f. 1 April 2023.

10. Segregation of tax accounts

Where a person has expenses incurred in common or commonly used any assets on all business or investment activities, and such expense or deduction cannot be separately identified for the calculation of tax accounts, it is permitted to divide such expenses or deductions on a proportionate basis (according to the proportion of turnover or proportion of asset usage) .

The income tax payable by a person for the Y/A 2022/23, shall be calculated separately for 2 periods of the Y/A as first six months and second six months. For the purpose of such calculation, the person may use pro-rata basis (as 50% for first six months and balance 50% for second six months of the Y/A) to arrive the taxable income for such two periods.

If you require any further clarifications on the matters discussed therein, please do not hesitate to Contact,

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