



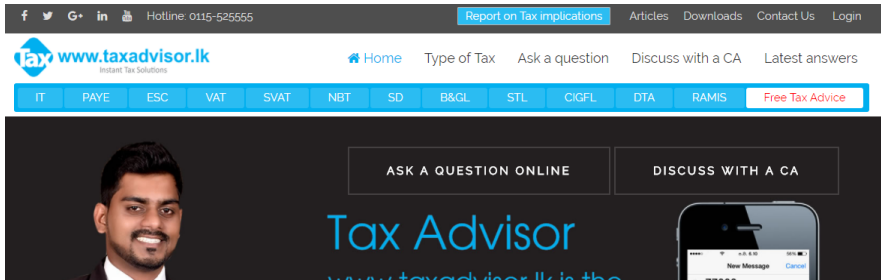
# FAQ

Inland Revenue Act, No.24  
of 2017

Online Tax Advisor (Pvt) Ltd

TAXADVISOR.LK

## Introduction



www.taxadvisor.lk is the **first** and **largest** online tax advisory website in Sri Lanka.

We are a team of dynamic Chartered Accountants dedicated with 100% commitment to cater to a much-needed niche with the combination of professional skills of our team together with unparalleled experience in tax laws and practices. We guarantee our clients a very high level of specialization in all aspects of tax services.

www.taxadvisor.lk provides a platform to quench your thirst of tax-related queries with professionally qualified Chartered Accountants

### Company Profile

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***Board of Directors are members of the Institute of Chartered Accountants of Sri Lanka.***

## Our steps

The purpose of this material is to build awareness of provisions of the Inland Revenue Act, No. 24 of 2017 (New IR Act) among the subscribers of TAX ALERT. We have already commenced the following steps to educate our subscribers.

1. Simplify the provisions of New IR Act via "TAX ALERT"-From 01<sup>st</sup> November 2017
2. Publish several articles in our website in connection with the highly technical matters in the New IR Act.
3. On the request of number of subscribers, we have opened a platform to ask any question on New IR Act free of charge at given period.
4. Provide report on implications on New IR Act upon request of subscribers. [www.taxadvisor.lk/tax-implications](http://www.taxadvisor.lk/tax-implications)
5. "Ask a question online" and "Discuss with a CA" options.
6. FAQ –New IR Act

# FAQ 1-10

## Learning Outcome

By the end of this chapter, you should be able to understand

1. Effective date
2. Who needs to pay income tax
3. Sources of Income
4. Qualifying payments & reliefs
5. Residency rule

Chapter

1

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1. **When does Inland Revenue Act, No.24 of 2017 come in to operation?**

**Answer**

April 1, 2018.

2. **Who needs to pay income tax?**

**Answer**

A **person** who has a **taxable income** or who receives a **final withholding payment.**

### **3. Who are the “persons” as per New IR Act?**

#### **Answer**

“Person” means-

- an individual, or,
- an entity
  - a company ,
  - a partnership or
  - a trust
- includes, a body of persons corporate or unincorporate,
- an executor,
- non-governmental organization and,
- Charitable institution.

### **4. What does it mean by “taxable income ”?**

#### **Answer**

The taxable income is equal to the total of the person’s assessable income from employment, business, investment and other sources less qualifying payments and reliefs.

### **5. What is “final withholding tax payment”?**

#### **Answer**

Final withholding payments are the payments on which the deduction of relevant final withholding tax is required. Accordingly, once the relevant tax is deducted and paid to the Commissioner General of Inland Revenue, such payment shall not be liable for further tax.

Ex:

- Dividend paid 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 etc.
- 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)

## **6. What are the sources of income as per the New IR Act?**

**Answer**

There are only four sources of income.

i.e Employment income, business income, investment income and other income.

## **7. What does it mean by “qualifying payments and reliefs?”**

**Answer**

The qualifying payments are as follows.

- a) a donation made by an individual or entity in money to an approved charitable institution that is:

- (i) charitable institution established for the provision of institutionalized care for the sick or the needy; and
  - (ii) declared by the Minister as an approved charitable institution for the purposes,
- b) a donation made by an individual or entity in money or otherwise to the following,
- (i) the Government of Sri Lanka;
  - (ii) a local authority;
  - (iii) any Higher Education Institution established or deemed to be established under the Universities Act, No. 16 of 1978;
  - (iv) the Buddhist and Pali University of Sri Lanka or any Higher Educational Institution established by or under the Buddhist and Pali University of Sri Lanka Act, No. 74 of 1981;
  - (v) a fund established by the Government of Sri Lanka;
  - (vi) a fund established by a local authority and approved by the Minister;
  - (vii) the Sevana Fund
  - (viii) a fund established by a Provincial Council and approved by the Minister;
  - (ix) the ApiWenuwenApi Fund
  - (x) National Kidney Fund
- c) Profits remitted to the President's Fund by a public corporation as required by the law by or under which such corporation is established.

The reliefs are as follows:

- a. **Rs. 500,000** for each year of assessment for the individual who is not a trustee, receiver, executor or liquidator.  
i.e the trustees, receivers, executors or liquidators are not entitled for this relief.  
Further, this relief is not available to deduct against the gains from the realization of investment assets  
(i.e this relief cannot be deducted against the capital gains)
- b. If an individual has employment income, he is entitled to a sum of **Rs.700,000** up to the total of such individual's income from employment for the year,
- c. in the case of an individual with rental income from an investment asset - an amount equal to 25% of the total rental income for the year of assessment, being a relief for the repair, maintenance, and depreciation relating to the investment asset, but, this amount shall only be allowed to the extent no deduction or cost is claimed for any actual expenditures incurred by the taxpayer for the repair, maintenance, and depreciation of the investment asset;
- d. 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;
- e. 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.

**8. Do the resident and non-resident persons fall to the meaning of "persons" given in New IR Act?**

**Answer**

Yes.

**9. Who are the resident persons under the New IR Act?**

**Answer**

An individual who,

- resides in Sri Lanka
- is staying more than 183 days or more in Sri Lanka in any 12 months period during the year
- is an employee or an official of the government and his spouse is posted abroad during the year
- is employed on a Sri Lanka ship, during the period of employment.

A partnership,

- formed in Sri Lanka; or
- at any time during the year the management and control of the affairs of the partnership are exercised in Sri Lanka.

A trust,

- established in Sri Lanka;

- at any time during the year a trustee of the trust is resident in Sri Lanka; or
- at any time during the year a person resident in Sri Lanka directs or may direct senior managerial decisions of the trust, whether the direction is made alone or jointly with other persons or directly or through one or more interposed entities.

A company,

- incorporated or formed under the laws of Sri Lanka;
- registered or the principal office is in Sri Lanka; or
- at any time during the year the management and control of the affairs of the company are exercised in Sri Lanka.

## **10. How the tax treatment of a resident person differs from non-resident person?**

### **Answer**

- In the case of a resident person, the tax payable is calculated on person's income from employment, business, investment or other source for that year, wherever the source arises. i.e on global income;
- In the case of a non-resident person, the tax payable is calculated on the person's income from the employment, business, investment or other source for that year, to the extent that the income arises in or is derived from a **source in Sri Lanka.**

Ex: Excreta (Pvt) Ltd is a company incorporated in Sri Lanka and is engaged in the business of providing consultancy services in construction field. The company has entered in to an agreement with an Indian Company to provide its services for a period of 2 months and company's representatives rendered such services in India. Excerta (Pvt) Ltd is a resident in Sri Lanka and is required to pay income tax on its global income. As such, Excreta (Pvt) Ltd is required to pay income tax on the income from services rendered in India.

This publication was prepared to present latest and time sensitive information affecting our subscribers. Hence, it has been prepared for general informational purposes only and no one should act upon such information without appropriate professional advice from Online Tax Advisor (Pvt) Ltd after a thorough examination of the particular situation.