



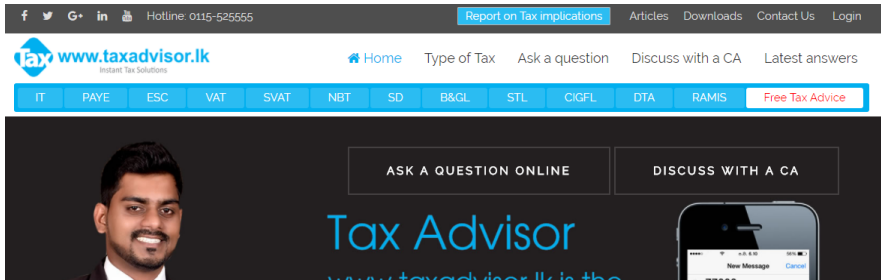
# FAQ

Inland Revenue Act, No.24  
of 2017

Online Tax Advisor (Pvt) Ltd

TAX ADVISOR.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 on provisions of the Inland Revenue Act, No. 24 of 2017 (New IR Act) among the subscribers of TAX ALERT. We have already initiated the following steps to educate our subscribers.

1. Simplification of the provisions of New IR Act via "TAX ALERT"- From 01<sup>st</sup> November 2017
2. Publication of 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. "A report on implications of New IR Act to your business" - 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

# Employment Income (FAQ 11-20)

## Learning Outcome

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

1. What is employment income
2. Reimbursement expenses
3. Entertainment allowance
4. Share option scheme
5. Exemptions

Chapter

2

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## Employment Income

### 11. What is employment income?

#### Answer

Individual's gains and profits from the employment

**12. Mr.Ranasinghe is working as a field officer in a Micro finance company. The company reimburses his travelling expenses in respect of field visits. Should these reimbursements be considered as employment income?**

#### Answer

No.

A discharge or reimbursement of expenses incurred by the individual on behalf of the employer shall be excluded in calculating employment income.

**13. As per the contract of employment, Mr.Mangala Atapattu is entitled for an entertainment allowance of Rs.10,000 per month. Is this income liable under employment income?**

**Answer**

Yes.

Payment of personal allowance, including any cost of living, subsistence, rent, entertainment or travel allowance are part of employment income.

**14. Mr.Pradeep Perera is entitled to reimburse the medical insurance expenses made by him from the company. Is this reimbursement liable under the employment income?**

**Answer**

Reimbursement of dental, medical or health insurance expenses are not liable, if the benefit is available to all full time employees on equal terms.

**15. Mr.Peiris received a gift of Rs.1Mn from XYZ PLC since he has completed a service of 25 years at XYZ PLC. Is this liable under the employment income?**

**Answer**

Yes. The gift has been received in respect of the employment contract with the company hence it should be considered as a part of employment income.

**16. XYZ PLC allotted 100,000 shares at Rs.10 to their employees under an employee share option scheme. The market value of a share is Rs.12. Ms.Fernando is an employee of the company & received 1000 shares under the scheme. Is it become a part of her employment income? If so, what is her employment income?**

**Answer**

Yes. Her employment income on shares allotted through the scheme should be calculated as follows.

( Market value of shares at the time of allotment – Employee's contribution)

$$(Rs. 12 \times 1000 - 10 \times 1000) = Rs.2,000$$

**17. If the company issued shares in previous question free of charge, what would be Ms.Fernando's employment income?**

**Answer**

(Market value at the time of allotment – Employee's Contribution)

(Rs.12 x 1000 – 0) = Rs.12,000

**18. What are the exemptions available for employment income?**

**Answer**

- 1) The pension of a person where the pension income is paid by the Government of Sri Lanka or a department of the Government of Sri Lanka
- 2) capital sums paid to a person as compensation or a gratuity in relation to –
  - (i) personal injuries suffered by the person; or
  - (ii) the death of another person
- 3) an amount paid to an employee at the time of retirement from—
  - (i) any pension fund or the Employees Trust Fund established by the Employees Trust Fund Act, No.46 of 1980, as represents income derived by that fund, for any period commencing on or after April 1, 1987, from investments made by it;

- (ii) a provident fund approved by the Commissioner-General
- 4) benefits received or derived by an employee of the government of Sri Lanka from a road vehicle permit issued to that employee

**19. Is Employer's contribution to a savings fund a part of the employment income?**

**Answer**

Subject to conditions as may be specified by the Commissioner-General, contributions made by an employer to an employee's account with a pension, provident or savings fund or savings society approved by the Commissioner – General are excluded from employment income.

**20. Mr. Gunasinghe was an employee and he retired from his employment. As a retirement benefit, he gets the followings.**

<b>Gratuity of</b>	<b>Rs.3, 000,000</b>
<b>From Regulated provided fund of</b>	<b>Rs. 8,000,000</b>
<b>From Regulated trust fund of Rs. 1,100,000 this included investment income of Rs.300,000 which was derived after April 1,1987.</b>	

**What will be the liable retirement benefit?**



<b>Answer</b>		<b>Rs.</b>
Gratuity		3,000,000
EPF		Exempted
ETF	1,100,000	
Less investment income after April 1,1987	<u>(300,000)</u>	
		<u>800,000</u>
Total liable retirement benefit		<u><u>3,800,000</u></u>

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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.

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