



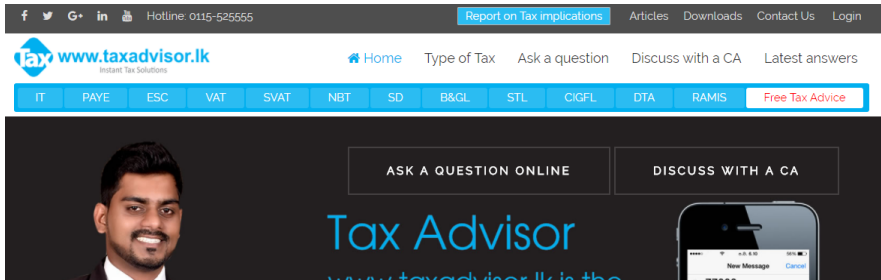
FAQ

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 01st 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
5. "Ask a question online" and "Discuss with a CA" options.
6. FAQ –New IR Act

Business & Investment Income (FAQ 21-30)

Learning Outcome

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

1. What is Business income
2. What is Investment income
3. What is an Investment asset
4. What is capital gain

Chapter

3

Business Income/Investment Income

21. What is business income?

Answer

The person's gains and profits from conducting a business

22. What is included in the business income?

Answer

- Service fees
- Consideration received in respect of trading stock

- Gains from the realization of capital assets and liabilities of the business
- Amounts required to be included by the Second or Fourth Schedule to this Act on the realization of the person's depreciable assets of the business
- Amounts derived as consideration for accepting a restriction on the capacity to conduct the business
- Gifts received by the person in respect of the business
- Amounts derived that are effectively connected with the business and that would otherwise be included in calculating the person's income from an investment;
- Other amounts required to be included under this Act.

23. What does it mean by effectively connected with the business?

Answer

This is some form of nexus, association or connection having with the business.

Example

1. In the case of a Bank or Financial Institution, it is a mandatory requirement to maintain minimum amount of investment in Government Securities to show the capital adequacy. Accordingly, the interest income earned on such investments is effectively connected to the business. As such, though it is an interest income, it will be a business income.
2. In the case of a manufacturing company, if the additional warehouse space was rented out for a shorter period. The rent income earned thereon is effectively connected with the business and as such, the said rent income will be a business income.

24. What shall be excluded in calculating business income?

Answer

- Exempt amounts and final withholding payments
- Amounts that are included in calculating income from employment

25. What is investment income?

Answer

A person's gains and profits from investments for the year of assessment.

26. What is included in the investment income?

Answer

- Dividends, interest, discounts, charges, annuities, natural resource payments, rents, premiums and royalties.
- Gain from realization of investment assets
- amounts derived as consideration for accepting a restriction on the capacity to conduct the investment
- Gifts received from investment
- winnings from lotteries, betting or gambling

27. What shall be excluded when calculating a person's gains from an investment?

Answer

- Exempt amounts and final withholding payments
- Amounts that are included in calculating income from employment or business

28. What is an investment asset?

Answer

“Investment asset” –

(a) means a capital asset held as part of an investment, but-

(b) excludes the principal place of residence of an individual, provided it has been owned by the individual continuously for the three years before disposal and lived in for at least two of those three years (calculated on a daily basis);

29. How to calculate Gain from the realization of investment assets?

Answer

Gain = (Consideration received for the assets – Cost of the asset)

Note: The cost of an investment asset held, as at, September 30, 2017 is equal to the market value of the asset at that time.

30. On 02nd April 2018, a person sold a building which was categorized under the investment asset as at 31.03.2018 in the statement of Financial position .The building was acquired in 1998 at a cost of Rs.1.2Mn.The selling price of the building as at 02nd April 2018 is Rs.12Mn and market value of the building as at 30th September 2017 is Rs.11Mn.

Calculate the gain from the realization of investment asset?

Answer

Gain = (Consideration received for the assets – Cost of the asset as at 30th September 2017)

Gain=Rs.1Mn (Rs.12Mn-Rs.11Mn)

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.