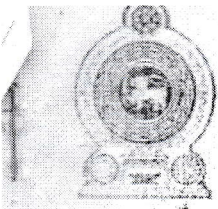


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MINISTRY OF FINANCE, ECONOMY AND POLICY DEVELOPMENT



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CABINET MEMORANDUM
Inland Revenue (Amendment) Bill

1) Introduction

The draft Inland Revenue (Amendment) Bill which provides for the legal provisions for the implementation of the income tax policy proposals in the "Economic Revival Initiative Programme" by H.E. the President and other income tax amendments proposed by various stakeholders is attached as **Annexure I** to this Memorandum. The proposed amendments are set out under the paragraph 2 below.

2) Proposed Amendments

(i). Interest Income

- (a) Interest paid up to Rs. 250,000 per month to any person shall be exempted from withholding tax (WHT), with effect from January 1, 2020.
- (b) Interest payments shall not be subjected to WHT and will form part of the assessable income, with effect from April 1, 2020.

(ii). Pay-As-You-Earn (PAYE) Tax

- (a) PAYE Tax free limit is increased from Rs. 100,000/- per month to Rs.250,000/- per month, with effect from January 1, 2020. Amount exceeding tax free limit is liable for PAYE at the progressive rate of 6%, 12% and 18% on monthly tax slab of Rs. 250,000/-.
- (b) PAYE tax will be removed and the employment income will form part of the assessable income, with effect from April 1, 2020.

(iii). **Terminal Benefits**

Income tax rate applicable on the terminal benefits is revised with effect from January 1, 2020, as follows:

- First Rs. 10 Million – Exempt
- Next Rs. 10 Million – 6%
- Balance – 12%

(iv). WHT on specified fees, paid to residents will be removed with effect from January 1, 2020.

(v). WHT on dividend, charge, natural resource payment, rent, royalty, premium or retirement payments made to residents will be removed and such income will form a part of assessable income, with effect from April 1, 2020.

(vi). WHT on Partners' share will be removed and the taxable income of the partnership excluding Rs. 1 million per annum will be subjected to Partnership Tax at the rate of 6%, with effect from April 1, 2020.

(vii). **Exemptions**

- (a) Profits and income earned by any person from farming including agriculture, fish and livestock farming is exempt from income tax with effect from April 1, 2019
- (b) Profits and income earned from providing Information Technology and enabling services is exempt from income tax, with effect from January 1, 2020. The enabling services will be prescribed by regulations by the Minister in charge of the subject of Finance.
- (c) Profits and income earned from services rendered to persons outside Sri Lanka, if the payments for such services are received in foreign currency, through a bank is exempt from income tax, with effect from January 1, 2020.
- (d) Interest income earned on NRFC and RFC accounts will be exempted from income tax with effect from April 1, 2020.
- (e) Interest paid on loans obtained from any person outside Sri Lanka is exempt from income tax, with effect from April 1, 2018.

- (f) Any income earned by any non-resident person on any Sovereign Bond denominated in foreign or local currency, is exempt from income tax, with effect from April 1, 2018.
- (g) Interest or discount paid or allowed to any person on Sovereign Bonds denominated in foreign currency, is exempt from income tax, with effect from April 1, 2018.
- (h) Funds received by any Public Corporation out of the funds voted by Parliament from the Consolidated Fund or out of any loan arranged through the Government, with effect from April 1, 2018.
- (i) Dividends paid by a resident company to any non-resident person will be exempted from income tax with effect from April 1, 2020
- (j) Amounts derived by any non-resident person from laboratory services or standards certification services will be exempted from income tax, with effect from April 1, 2020.
- (k) Amounts received by any religious institution by way of grants and donations will be exempted from income tax, with effect from April 1, 2020.

(viii). Qualifying Payments

- (a) Payments made to Consolidated Fund by any Public Corporation is deductible in calculating income tax of such Corporation, with effect from April 1, 2019.
- (b) Following payments subject to maximum of Rs.100,000/- per month or Rs. 1.2 million per annum will be deductible, with effect from April 1, 2020 in calculating the Personal Income Tax:-
- Health expenditure including contributions to Medical Insurance
 - Educational expenditure incurred locally
 - Payment of interest on housing loans
 - Contribution to an approved pension scheme
 - Expenditure incurred for the purchase of equity or security

(ix). Income Tax Rate Changes

- (a) The 40% income tax rate is limited to the manufacture and sale or import and sale of any liquor or tobacco product, with effect from April 1, 2019

(b) The progressive rate applicable on Personal Income is revised to 6%, 12% and 18% and the tax free limit and the tax slab is revised to Rs.3 million per annum, with effect from January 1, 2020.

(c) Corporate Income Tax Rate will be revised, with effect from April 1, 2020, as follows:-

- | | |
|--|-----|
| • Exports, Tourism, Education, Medicare, Construction, and Agro processing | 14% |
| • Manufacturing | 18% |
| • Liquor, Tobacco, Betting and Gaming | 28% |
| • Trading, Banking, Finance, Insurance, etc. | 24% |