

23 February 2023

Mr. D. R. S. Hapuarachchi
Commissioner General,
Department of Inland Revenue,
Sir Chittampalam A. Gardiner Mawatha,
Colombo 02.

Dear Mr. Hapuarachchi,

Advanced Personal Income Tax: Discriminatory Tax Treatment of Non-Cash Benefits for Government and Non-Government Employees

In our standing as the National Body of Accountants, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), shares an important relationship with the Department of Inland Revenue that spans many decades, and both the Institute and our Members work closely with your Department in our joint efforts to enhance the taxation structure in Sri Lanka.

We would like to draw your attention to the numerous concerns we have received from our Members, Practitioners and the general public regarding the circular dated 07th February 2023 with the reference No. FP/R/01/05/07/05-2023, which was issued by you on the instruction of the Secretary to the Treasury in relation to quantifying gains and profits from the employment of an employee.

Therefore, we would like to express our concerns regarding the varying methods employed to compute the employment income (Especially Non – Cash Benefits) for government and non-government employees. As the National Body of Accountants, we believe it is our duty to request clarification for the rationale of the disparate approach to remove any ambiguity in the aforementioned circular.

Value of benefits from any residence provided by the employer

The circular stipulates that the value of the benefits received by an employee from their residence will be calculated by considering the "salary" which is used for the deduction of either the Widows' and Orphans' Pension Scheme (W&OP) or Provident Fund. The basis of the deduction for the Widows' and Orphans' Pension Scheme (W&OP) in the case of the state sector is "basic pay" while private sector provident funds generally encompass the gross remuneration. This method of calculation has a direct impact on the principles of fairness and equality in taxation, as an individual who receives a lower basic salary may pay a smaller amount of tax, while someone who receives a gross remuneration may pay a larger amount of tax.

Quantification of the value of the benefit included in the transport facilities provided by the employer

According to the circular, the value of benefits related to transportation provided by an employer, such as payments for rented vehicles and fuel, will only be subject to a 25% tax for government employees and employees covered by a government-issued circular, directive, or regulation. However, all other employees will have to pay taxes on the full 100% of the benefits received. This policy appears to be, in our humble view, a violation of the principles of fairness in taxation.

Value of communication facilities provided by the employer

The circular clarifies that the value of the benefits received by an employer for communication facilities under any Circular, Directive or Regulation issued on its behalf by the Government, the 25% of the cost incurred by the employer for such payment should be the value of the benefit to the employee of such payment, whereas payment of telephone bills is 50% of the cost for private sector employees, and any other communication facility benefits are considered 100% of the benefits. We are unable to understand why such a disparity prevails.

Therefore, we would be most grateful to you if you would be able to provide a response to the above concerns, which we can then share with our stakeholders who have voiced concerns about this disparity.

Thanking you in advance,

Yours sincerely,
**THE INSTITUTE OF CHARTERED ACCOUNTANTS
OF SRI LANKA**



Dulani Fernando
CHIEF EXECUTIVE OFFICER