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உள்ளாட்டு இறைவரித் திணைக்களம்
DEPARTMENT OF INLAND REVENUE

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Circular No: SEC/2020/03

May 19, 2020

Circular to Banks and Financial Institutions

Deduction of Withholding Tax and Advance Income Tax

This Circular sets out explanatory notes and guideline to any Bank or Financial Institution to facilitate the application of the proposed changes as already notified by the Commissioner General of Inland Revenue (CGIR) by his notice under the reference No. PN/IT/2020 - 03 (Revised) dated 06.04.2020 published in line with the instructions issued by the Ministry of Finance, subject to formal amendments to the Inland Revenue Act, No. 24 of 2017 (IRA), to be passed in Parliament, for the deduction of **Withholding Tax** (hereinafter referred to as “WHT”) or **Advance Income Tax** (hereinafter referred to as “AIT”) from payments of any amounts as the interest, discounts, income from Islamic financial transaction payable to any deposit holder.

This circular is effective from April 01, 2020.

A. Withholding Tax (WHT) on Interest

WHT shall be deducted on any interest or similar payments made to any non-resident person only.

1. Payments Subject to WHT and the Tax Rates

Payments of any amounts by any bank or financial institution as interest (excluding exempt Interest), discounts and income received from Islamic financial transaction (referred in Section 32 of IRA) which has source in Sri Lanka, payable to any non-resident person is liable to be deducted of WHT at 5%.

However, in the case of non-resident individual but who is a citizen of Sri Lanka, WHT should be deducted if his aggregate interest income from a bank/financial institution exceeds Rs. 250,000 for any month or Rs. 3,000,000 for any year of assessment. For this purpose, a declaration must be obtained by the bank/financial institution from the relevant individual or from the duly authorized agent or attorney of such individual that the assessable income of such person has not exceeded Rs. 3,000,000 for the year of assessment to prevent from deduction of WHT. (Please refer to the annexure 1 for declaration format). **If no declaration**

is received, WHT should be deducted on the total gross interest payment. If the declaration is received, WHT should be deducted on the amount of interest payment as stated in the declaration.

2. Application of Provisions of Double Tax Avoidance Agreement

Subject to the provisions of relevant Double Tax Avoidance Agreement (DTAA) between Sri Lanka and the non-resident persons' resident country, lower WHT rate (compared to the rates in above item 1) may be applicable for the payment of interest. The person who makes such payments are required to obtain a Tax Clearance Certificate from the Inland Revenue Department for the payments to non-residents and lower rates will be considered (if applicable) when issuing such tax clearance certificates.

3. Procedures to be Followed in deducting WHT

- i.** Gross interest (other than repayment of capital made under a debt obligation) is considered as an interest for the deduction of WHT. Any sum referred to as "excess" over the original payment (in the case of any certificate of deposit), discount or profit from Islamic financial transaction is considered for amount subject to the deduction of WHT.
- ii.** If any person wants to remit the total amount of the due payment (before the deduction of WHT) to non-resident person, that amount should be treated as the net amount and the relevant withholding tax should be calculated based on the grossed-up amount.
- iii.** The person is required to apply the currency exchange rate (selling rate) published in the Central Bank Website which is relevant for the date of remittance to convert foreign currency amount into rupee amount.
- iv.** If the investment is jointly owned by the declarant with another person, relevant payment shall be apportioned among the joint owners in proportion to their interests in the investment. Where the interests of joint owners cannot be ascertained they shall be treated as equal.

4. Exempt Interest

- i.** The interest accruing to or derived by any person outside Sri Lanka on any loan granted to any person in Sri Lanka or to the Government of Sri Lanka
- ii.** The interest accruing to or derived by any person on moneys lying to his credit in foreign currency in any foreign currency account opened by him or on his behalf, in any commercial bank or in any specialized bank, with the approval of the Central Bank of Sri Lanka.
- iii.** Any income earned by
 - a)** any non-resident person (other than a Sri Lankan permanent establishment) by way of interest, discount or realization of any gain on any sovereign bond denominated in local or foreign currency

b) any person by way of interest or discount paid or allowed, as the case may be, on any sovereign bond denominated in foreign currency, including Sri Lanka Development Bonds,
issued by or on behalf of the Government of Sri Lanka

iv. Amounts derived by

- a) the Government of a foreign country of foreign territory to the extent specified under a diplomatic immunities law or a similar law;
- b) an international organisation to the extent specified under a diplomatic immunities law or a similar law or an agreement between the organisation and the Government of Sri Lanka, provided that the exemption provided under the agreement shall be broader than that provided under diplomatic immunities law or a similar law;

v. An amount equal to the interest or the discount paid or allowed, as the case may be, to any non-resident person or to any licensed commercial bank in Sri Lanka, by the issuer of any sovereign bond denominated in foreign currency, issued on or after October 21, 2008, by or on behalf of the Government of Sri Lanka.

B. Advance Income Tax (AIT)

AIT is deductible on any interest or similar payments made to any resident person subject to the consent given by such person. If the consent is not granted, in no case AIT could be deducted.

1. Declaration to the Bank or Financial Institution

The resident person who receives or derives payment of any amounts by any bank or financial institution as interest (excluding exempt Interest), discounts, income from Islamic financial transaction (referred in Section 32 of IRA) which has source in Sri Lanka may make a declaration in which he may express his consent to deduct AIT as in the given format [Annexure 2(a) & 2(b)] to any bank or financial institution.

2. Rates of Deduction

AIT is deductible by applying the relevant income tax rates on the relevant amounts declared by the person in their declarations.

In the case of Resident Individual, amount of the payment and the tax rates are given below.

Amount of Interest (Rs.)		Tax Rate
For Annual Deductions (Y/A)	For Monthly Deductions	
Maximum up to Rs. 3,000,000	Maximum up to Rs. 250,000	6%
Next, but Maximum up to Rs. 3,000,000	Next, but Maximum up to Rs. 250,000	12%
Balance	Balance	18%

For any resident persons **other than resident individuals**, amount of the payment and the tax rates are given below.

Type of Entity	Tax Rate	Amount of Payment (Rs.)*
Partnership	6%	
Charitable Institution	14%	
Employees Trust Funds, Provident Fund, Pension Fund or Terminal Funds	14%	
Other Resident Entities including Resident Company	24%	

**(Amount of payment for which AIT to be deducted must be specified by the declarant as applicable. The declarant can exclude the exempted interest for AIT deduction purposes)*

C. COMMONLY APPLICABLE GUIDELINES FOR WHT AND AIT

1. Time of Tax Deduction

Tax should be deducted at the time, that the relevant amount is paid, credited, re-invested, accumulated, capitalized or made available to the person; as the case may be; by a Bank or Financial Institution in making such payments.

2. Payments of Tax Deducted

Every Bank or Financial Institution who has deducted WHT or AIT shall pay the relevant tax to the Commissioner General of Inland Revenue within fifteen days after the end of each calendar month. Relevant tax type code for the payment of the tax is as follows.

- WHT/AIT on Interest 43

3. Certificate of Deduction

Every Bank or Financial Institution who has deducted WHT or AIT is required to issue a certificate of WHT or AIT deduction; as the case may be; to every person in the specified format. The WHT / AIT certificate shall cover a calendar month and shall be served within 30 days after the end of the month or as approved by the Commissioner General.

4. False or Misleading Statement

A declaration, statement or certificate provided to a bank or financial institution is treated as a statement made to a tax official for the purpose of section 181 of the IRA and penalty will be imposed for false or misleading in a material particular.

5. Records to be Maintained by the Bank or Financial Institution and Their Obligations

- i. The Bank or Financial Institution who are deducting WHT or AIT shall be a registered Withholding Agent under the Commissioner General of Inland Revenue. If the registration has not obtained, the person is required to obtain a registration number from the Commissioner General not later than 30 days prior to the commencement of deduction of WHT / AIT.

- ii. For the purpose of deduction of AIT, separate registration is not required to any bank or financial institution, they can continue under the same registration of WHT Agent.
- iii. Such Persons shall keep proper records (including the declarations received by them) in given format (Please refer annexure 4) for all the WHT/AIT subjected payments and shall be furnished at the request of tax official or for the inspection of the tax official.
- iv. Schedules to the Annual Statements should be submitted on WHT and AIT deducted and such schedules are required to be furnished in (Excel csv format) electronic form. However, if number of WHT/AIT deducted persons (taxpayers) are less than 20, hard copies may be submitted.


A. Nadun Guruge
Commissioner General of Inland Revenue

*Nadun Guruge
Commissioner General
Department of Inland Revenue,
Sir Chittampalam A.Gardiner Mawatha,
Colombo 02.*

INLAND REVENUE DEPARTMENT

To:
.....
.....

(Name & Address of the Bank or Financial Institution)

Account Number(s)

Year of Assessment:

DECLARATION BY NON-RESIDENT, SRI LANKAN CITIZEN
INDIVIDUALS TO BANKS OR FINANCIAL INSTITUTIONS

I,.....
..... (Full Name of
the Declarant) of
.....
..... (Address
of the Declarant) hereby declare that;

I am a non-resident of Sri Lanka (as per the provisions of the Inland Revenue Act, No. 24 of 2017) and a Sri Lanka Citizen (as per the Citizenship Act of the Sri Lanka). *

I am the duly Authorized Agent / Attorney* of Mr. / Mrs. /Ms.....
.....
.....(Full Name of the Deposit Holder) of.....
.....
(Address of the Deposit Holder) and he / she* is a non-resident of Sri Lanka (as per the provisions of the Inland Revenue Act, No. 24 of 2017) and a Sri Lanka Citizen (as per the Citizenship Act of the Sri Lanka). *

The Assessable Income (including the other sources of income from Sri Lanka) derived by me / him / her* for the above year of assessment is likely to exceed Rs. 3,000,000 including this interest income.

Therefore, please deduct the Withholding Tax (WHT) for the year of assessment on the total interest payment / on the amount which exceeds Rs.
[=Rs. 3,000,000 – Total of Other Sources of Income from Sri Lanka other than this interest (if other sources are less than Rs. 3Mn)] *

Deposit Holders'

Passport Number and Issued Country

National Identity Card No. of Sri Lanka (if any)

Taxpayer Identification No. of Sri Lanka (if any)

Country of Residence.....

I certify that the above declaration made by me is true and correct.

.....

Date

.....

Signature of the Declarant

(*please strike-off the statements not relevant)

Note

A declaration, statement or certificate provided to a bank or financial institution is treated as a statement made to a tax official for the purpose of section 181 of the IRA and penalty will be imposed for false or misleading in a material particular.

INLAND REVENUE DEPARTMENT

To:

.....

.....

(Name & Address of the Bank or Financial Institution)

Account Number(s)

Year of Assessment:

DECLARATION BY RESIDENT INDIVIDUALS TO BANKS OR FINANCIAL INSTITUTIONS

I,.....
(Full Name) of
 (Address).....

hereby declare that;

I am a resident of Sri Lanka (as per the provisions of the Inland Revenue Act, No. 24 of 2017) and, the Assessable Income (including from other sources of income) derived by me for the above year of assessment is likely to exceed Rs. 3,000,000.

Therefore, please deduct the Advance Income Tax (AIT) for the year of assessment on the interest payments as follows.

Estimated Assessable Income for the Y/A Rs.	Rate	Amount of payment should be considered for AIT deduction purpose Rs.
3,000,000 – 6,000,000	6%	*
6,000,001 – 9,000,000	12%	*
9,000,001 and above	18%	

*Maximum amount should be Rs. 3,000,000

National Identity Card No.

Taxpayer Identification No.

I certify that the above declaration made by me is true and correct.

Any changes to my residence status will be notified at the time of such change.

.....

.....

Date

Signature of the Declarant

Annexure 2(b)

INLAND REVENUE DEPARTMENT

To:
.
.

(Name & Address of the Bank or Financial Institution)

Account Number(s)

Year of Assessment:

DECLARATION BY RESIDENT ENTITIES TO BANKS OR FINANCIAL INSTITUTIONS

I,.....
.....(Full Name of the declarant, manager, director, secretary or
authorized officer of the entity) the.....(designation) of
.....
.....
.....(name of the entity) which is having its registered office
at.....
.....(address of
the entity) is hereby declare that; this entity is a resident entity of Sri Lanka (as per the
provisions of the Inland Revenue Act, No. 24 of 2017) and, there may be an Assessable Income
derived by this entity for the above year of assessment.

Therefore, please deduct the Advance Income Tax (AIT) for the year of assessment as follows,

Type of Entity	Tax Rate	Amount of Payment (Rs.)*
Partnership	6%	
Charitable Institution	14%	
Employees Trust Funds, Provident Fund, Pension Fund or Terminal Funds	14%	
Other Resident Entities including Resident Company	24%	

**(Amount of payment for which AIT to be deducted must be specified by the declarant as applicable)*

Type of the Entity: Partnership/ Charitable Institution / Employees Trust Fund/ Employees Provident Fund/ Pension Fund/ Employee Terminal Funds/ Company/ Corporation/ Other Entity (please mentioned the type of entity or strike of the statements if not relevant)

Taxpayer Identification No.

I certify that the above declaration made by me is true and correct.

.....
Date

.....
Signature of the Declarant

Annexure 3(a)

Certificate No:/ Serial No:

TIN of the Withholding Agent:.....

Certificate of Advance Income Tax (AIT) Deduction

Name and address of the Bank/Financial Institution

.....

Name and address of the recipient:.....

.....

Reference Number of the Declaration.....

National Identity Card No. /Passport No. / Tax Identification No.....

Period: from: to:

Gross amount of the payment (Rs.):

Type of Person	Applied Rate	Amount subjected to AIT (Rs.)	Amount of AIT Deducted (Rs.)
Resident Individual	6%		
	12%		
	18%		
Resident Entity	6%		
	14%		
	24%		
Other			
Total			

.....

Name and Signature of the Authorized Officer

.....

Date

Annexure 3(b)

Certificate No:/ Serial No:

TIN of the Withholding Agent:.....

Certificate of Withholding Tax (WHT) Deduction

Name and address of the Bank/Financial Institution

.....
.....

Name and address of the
recipient:.....

.....

National Identity Card No. /Passport No. / Tax Identification No (Sri Lanka).....

Period: from: to:

Gross amount of the payment (Rs.):

Type of Person	WHT Rate %	Amount subjected to WHT (Rs.)	Amount of WHT Deducted (Rs.)
Non-Resident Individual but Citizen			
Non-Resident Non- Citizen Individual			
Non-Resident Entity			

.....
Name and Signature of the Authorized Officer

.....
Date

Annexure 4**Withholding Tax / Advance Income Tax Deduction**

Following schedule shall be prepared for the interest payments made to non-residents.

	Serial Number
	Name of the Recipient
	Address of the Recipient
	Country of Residence
	Whether Citizen in Sri Lanka or not
	Declaration Reference (for Citizen)
	Account Number(s)
	Payment Period
	Gross Amount Paid
	TIN/ NIC or Passport Number, if any
	Tax Clearance Certificate Reference No.
	Amount Considered for Deduction
	Tax Rate
	Amount of Tax Deducted
	Net Amount Paid
	WHT Certificate Reference

Following schedule shall be prepared for the deduction of Advance Income Tax

	Serial Number
	Name
	Address
	TIN/ NIC or Passport Number
	Account Number (s)
	Payment Period
	Gross Amount Paid
	Declaration Reference
	Amount Considered for Deduction
	Tax Rate
	Amount of Tax Deducted
	Net Amount Paid
	Certificate Reference (if issued)