



INLAND REVENUE DEPARTMENT

Notice to the Companies

Computation of Income Tax Payable and Payments for the Year of Assessment 2019/2020

As instructed by the Ministry of Finance on January 31, 2020 and March 05, 2020, in line with changes proposed to the Inland Revenue Act, No. 24 of 2017 (IRA), pending formal amendments being made to the Act, a resident or non-resident company shall compute the income tax payable (subject to the provisions of the IRA) following the instructions set out below for the Year of Assessment 2019/2020.

1. Company shall compute the assessable income and taxable income for the year of assessment without separating in to two periods as for first 9 months [from 01.04.2019 to 31.12.2019 (before the proposed changes)] and for last 3 months [from 01.01.2020 to 31.03.2020 (after the proposed changes)] (hereinafter referred to as the First Period, second period respectively) in accordance with the provisions of the IRA and proposed changes announced by the Commissioner General of Inland Revenue in his notice PN/IT/2020-03 (Revised) dated 08.04.2020.
2. If the company received or derived any amounts which are exempted as per the proposed changes for the Second Period, 1/4th of the total amounts received or derived during the year from such source can be excluded as exempted amount in arriving the taxable income for the year of assessment. Actual dividend income received or derived during the First Period shall also be excluded as a final withholding payment. The expenditures and related deductions which would be deductible from such exempted amounts or from final withholding payments and disallowable amounts under Section 10(1)(b)(iv) of the IRA, should be prorated based on the time (3/4th for the First Period and 1/4th for the Second Period).
3. Taxable income computed as above instructions is required to apportion over the two periods by applying the pro-rata basis based on the time (3/4th for the First Period, and 1/4th for the Second Period). However, actual dividend income received or derived during the Second Period is not required to apportion over the two periods but should be recognized for the taxable income of the Second Period.
4. Income tax payable by the company for its taxable income shall be separately calculated for two periods by applying the relevant rates of income tax. Accordingly, Income tax rates as per the of the

IRA (before the proposed amendments) should be applied for the First Period and income tax rates set out in proposed changes and announced by the Commissioner General of Inland Revenue in his notice PN/IT/2020-03 (Revised) should be applied for the Second Period.

5. In applying the special tax rates set out in item (b), (c), (e), (f) and (g) of subparagraph 2 of Paragraph 4 of the First Schedule of the IRA for the First Period, required base of “predominant” shall be calculated based on the actual gross income of the First Period (“predominantly” means 80% or more calculated based on gross income of the First Period).
6. Subject to the provisions of the IRA, foreign tax credit, non-final withholding tax credit and other tax credits granted or allowed can be deducted from the amount of total tax payable to calculate the income tax payable by the company for the year of assessment 2019/2020.
7. If any company received the approval to prepare its financial statements for twelve months period other than from April 01st to March 31st, above instructions can appropriately be applied for the relevant two periods of the year of assessment as for the period prior to 01.01.2020 (First Period) and for the period on or after 01.01.2020 (Second Period).
8. The company may file a revised estimate (Revised Statement of Estimated Income Tax Payable) as provided in Section 91(5) of the IRA. Further, fourth and final quarter instalment shall be paid in line with Section 90 of the IRA on or before the 15th date of May 2020.
9. Illustrations are appended

For any clarification, please contact below officers of the Secretariat.

Mr. N. C. Wijewardana – Deputy Commissioner	0112135438 / 0718113870
Ms. Priyanka Dissabandara – Senior Deputy Commissioner	0112135431 / 0714412944
Mr. A. M. Nafeel – Commissioner	0112135412 / 0715350444

Commissioner General of Inland Revenue



Example:

ABC Company is manufacturing rubber products to local and foreign market. Details as per the financial statements prepared for the year ended 31st March 2020 are as follows. The company has submitted Statement of Estimated Tax (SET) payable on 15.08.2019 and estimated tax payable for the year was Rs. 50,000,000.

<u>Turnover</u>	<u>Rs. '000</u>	<u>Rs. '000</u>
Sales to Local Market	800,000	
Sales to Foreign Market (payment received in Foreign Currency to bank)	<u>300,000</u>	<u>1,100,000</u>
Less: Cost of Sales		<u>(600,000)</u>
Gross Profit		500,000
Expenditure and Other Deductions		(200,600)
<u>Other Operating Income</u>		
Interest	1,000	
Dividend (Received from company A)	4,000	
(Company A declared relevant dividend from its business profit)		
Foreign Consultancy Fees (foreign currency received to the bank)	<u>10,000</u>	<u>15,000</u>
Profit for the Period		<u>314,400</u>
<u>Other information</u>	<u>(Rs. '000)</u>	
ESC Paid	3,010	
Income tax paid	38,000	
No expenditure incurred on interest or dividend income		
	<u>First Period</u>	<u>Second Period</u>
	<u>Rs. '000</u>	<u>Rs. '000</u>
Sales to Local Market	500,000	300,000
Sales to Foreign Market	100,000	200,000
Dividend	3,000	1,000
Donation to approved charity	400	200
Withholding tax deducted on interest	20	
Withholding tax on dividend	420	

Computation of Income Tax Payable by the ABC company for the year of assessment 2019/2020

Profit for the Period		<u>Rs. '000</u>
		314,400
Less:		
<u>Exempted Amounts</u>		
Foreign Consultancy Fees (10,000 X 1/4)	2,500	
<u>Final Withholding Payments</u>		
Dividend	3,000	
<u>Investment Income</u>		
Interest and (balance) Dividend (1,000+1,000)	2,000	<u>(7,500)</u>
		306,900
Add: Disallowable Expenses		
Donations	600	
Expenditure on exempt amounts and final withholding payments		
On foreign Consultancy Fees (applied gross revenue basis)		
=(((200,600-600)/1,110,000) X 10,000) X 1/4	<u>= 450</u>	<u>1,050</u>
Assessable Income from business		307,950
Interest	1,000	
Dividend	1,000	
Assessable Income from investment		<u>2,000</u>
Total Assessable Income		309,950

Less: Qualifying Payment		
Donation to Approved Charity = 600		
1/5 th of T.I.	= 51,658	
Allowed limit	= 500	(500)
Taxable Income		<u>309,450</u>

<u>Taxable Income</u>	<u>First Period</u> Rs. '000	<u>Second Period</u> Rs. '000
Total Taxable Income other than dividend (3/4 th and 1/4 th)	231,337	77,113
Dividend	-	1,000
<u>Income Categories</u>		
Dividend Income	-	1,000
Interest (3/4 th and 1/4 th)	750	250
Other Business Income	230,587	76,863

<u>Tax Computation</u>	Rs. '000
On taxable income of the First Period (note 1) = 231,337 X 28%	= 64,774
On taxable income from sales to foreign market=(76,863/500,000) X 200,000 = 30,745 X 14%	= 4,304
On taxable income from manufacturing business= (76,863/500,000) X 300,000 =46,118 X 18%	= 8,301
On dividend income = 1,000 X 14%	= 140
On balance taxable (Interest) income = 250 X 24%	= 60
Total amount of income tax payable (other than tax on final WH payment)	<u>=77,579</u>

Company ABC wish to furnish a revised estimate return for the amount of tax payable. Accordingly, income tax payable as fourth and final installment is as follows.

Estimated Tax Payable – (Tax paid during the year + Withholding tax)

1

= 77,579-(38,000+20) 39,559

1

Less: Economic Service Charges Paid	(3,010)
Income Tax Payable on or before 15th May 2020	<u>= 36,549</u>

Note 1

Export of goods and services during the first period = 102,000
Gross Income for the first period = 602,400
Percentage = 17%

ABC Company is not predominantly conducting a business of exporting goods and services during the first period.