



INLAND REVENUE DEPARTMENT

Notice to the Individuals

Instructions on the 4th Installment Payment for the Year of Assessment 2019/2020

As instructed by the Ministry of Finance and in line with the notice published by the Inland Revenue Department (IRD), several changes have been proposed to be made to the Inland Revenue Act, No. 24 of 2017 (IRA) with effect from January 01, 2020.

Consequently, requirement for deduction of Withholding Tax (WHT) including PAYE is removed with effect from 01.01.2020. However, the income tax liability on employment income and investment income remains the same in the hands of employees and other taxpayers.

As such, it is the responsibility of any resident individual, to submit a “Statement of Estimated Income Tax Payable (SET)” or a revised SET, if a SET is already submitted, for the year of assessment 2019/2020, considering the interest income and dividend income as part of the assessable income and to make the income tax installment payment of 4th quarter on or before May 15, 2020 on taxable income (whose income has not been subjected to WHT and PAYE).

Taxable income of above resident individuals should be calculated as follows.

1. Apportionment of Assessable Income

An individual should apportion the employment income, business income and investment income for the period from 01.04.2019 to 31.12.2019 (hereinafter referred to as the “First Period”) and for the period from 01.01.2020 to 31.03.2020 (hereinafter referred to as the “Second Period”).

In arriving at the taxable income, following reliefs and qualifying payments are entitled to be deducted.

2. Reliefs

An individual is entitled to deduct following reliefs provided under paragraph 2 of the Fifth Schedule of the IRA.

- a) Relief granted under subparagraph (a) of paragraph 2 of fifth schedule (Personal relief) to the IRA, Rs. 1,125,000 $[(500,000 \times 9/12) + (3,000,000 \times 3/12)]$ for the year of assessment up to the aggregate assessable income (except gains from the realization of investment assets) of the year of assessment 2019/2020
- b) Relief granted under subparagraph (b) of paragraph 2 of the Fifth Schedule to the IRA (Employment Relief) Rs. 525,000 up to December 31, 2019 up to the total of the individual's employment income for the year of assessment 2019/2020
- c) Relief granted under subparagraph (c) of paragraph 2 of the Fifth Schedule (Rent Relief) to the IRA – 25% of the total rental income for the year of assessment 2019/2020
- d) If an individual is a senior citizen, relief granted under subparagraph (d) of paragraph 2 of the Fifth Schedule (Senior Citizen Interest Relief) to the IRA -Rs. 1,500,000 for each year of assessment, up to the total of the individuals interest income from financial institutions derived and deemed as derived for the period up to 31 December 2019
- e) If the resident individual or partner of a partnership earned income from foreign currency and qualified for the relief under subparagraph (e) of paragraph 2 of the Fifth Schedule (Foreign Service relief) to the IRA, Rs. 15,000,000 for each year of assessment, up to the total of such income for the period up to 31 December 2019
- f) Relief that is proposed [as announced in the Notice No PN/IT/2020 –03 (Revised) dated 06.04.2020] to be granted under subparagraph (f) of paragraph 2 of the Fifth Schedule (Expenditure Relief) to the IRA - Rs. 300,000 up to the total sum on following specific expenditure incurred for the Second Period
 - Health expenditure including the contributions to medical insurance
 - Education expenditure incurred locally for such individual or on behalf of his children
 - Interest paid on housing loans
 - Contribution made to an approved pension scheme
 - Expenditure incurred for the purchase of equity or securities

Note: Above aggregate reliefs are deductible in arriving at the taxable income of an individual who is resident in Sri Lanka for a year of assessment subject to the provisions of IRA. However, non-resident individuals but citizens in Sri Lanka can deduct the personal relief mentioned under above paragraph a) in arriving at the taxable income of such individual.

3. Qualifying payments

- Donations made in money to an approved charitable institution - subject to the amount of one fourth of the total assessable income (one third of the taxable income) or Rs. 75,000 or amount donated, whichever is less. and
- Donations made in money or otherwise to the Government or any specified institutions in the fifth schedule to the IRA
- Any un-deducted balance of any qualifying payment brought forward from the previous year of assessment according to the Inland Revenue Act, No. 10 of 2006

Will be a qualifying payment to an individual

4. Calculation of Income Tax Payable

A. Apportioning the assessable income

- a) Employment income shall be the actual basis for the First Period and the Second Period. (Gross Remuneration in accordance with the T 10 form)
- b) Interest income shall be
 - (i) the actual amount for respective periods, or
 - (ii) apportioned on pro-rata basis as 3/4th of total interest income to the First Period and 1/4th of total interest income to the Second Period
 - (iii) In the case of a Senior Citizen, if any interest income is received or the apportioned amount under item (ii) in the First Period is less than Rs. 1,500,000, then the interest amount to be allocated to the First Period shall be the amount (hereinafter referred to as “X”) as calculated below equation

$$X = 1,500,000 - \text{Actual interest income received in the First Period}$$

- c) Dividend, rent and other investment income on actual basis
- d) Business income should be apportioned on pro-rata basis as 3/4th of total business income to the First Period and 1/4th of total business income to the Second Period

B. In arriving at the taxable income;

- Employment relief shall be deducted from the employment income relevant to the First Period and if there is any un-deducted relief such part can be deducted from the employment income relevant to the Second Period.
- Interest relief on interest derived by a senior citizen Rs, 1,500,000 can be deducted from the First Period
- Foreign Services relief on foreign service income Rs. 15,000,000 can be deducted from the First Period
- Rent relief of 25% on total rent income can be deducted from the relevant rent income for each Period

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- Expenditure relief can be deducted only against the assessable income relevant to the Second Period
 - Personal relief of Rs. 1,125,000 is entitled to be deducted for the year of assessment 2019/2020. However, Rs. 375,000 and Rs. 750,000 relevant to the First Period and the Second Period respectively shall be deducted from the relevant part of assessable income. If there is any un-deducted relief such part can be deducted from the balance assessable income of the other Period.

However,

- o Un-deducted Personal relief relevant to the Second Period shall not be deducted from the employment income in which PAYE tax has already been deducted.
 - o If the relief is not deductible due to the income is considered as final withholding payment during the First Period, or income for the Second Period is considered an exempt, then the non-deductible relief must be ignored.
- C. In arriving at the taxable income, qualifying payments can be deducted from any period. Total assessable income can be calculated by aggregating the assessable income after deducting the entitled reliefs over the two periods
- D. Apply the income tax rates separately as for the First Period and for the Second Period
- E. Income tax payable amount shall be calculated by applying the applicable tax rates (Paragraph 6) for the relevant two periods.

5. Refunds and Payable Amounts due to the Deduction of Aggregate Reliefs

Although the tax for the First Period has been correctly calculated in accordance with the prevailing law, any refundable amount or payable amount that would be arisen for the First Period due to the deduction of aggregate reliefs Rs 1,650,000 (525,000 + 1,125,000) for the whole year of assessment, will be disregarded.

6. Applicable Tax Rates to Resident and Non-Resident individual

A. Normal rates

- First Period

Taxable Income	Tax Rate
On the First 450,000	4%
On the Next 450,000	8%
On the Next 450,000	12%
On the Next 450,000	16%
On the Next 450,000	20%
On the Balance	24%

- **Second Period**

Taxable Income	Tax Rate
On the First 750,000	6%
On the Next 750,000	12%
On the Balance	18%

B. Special rates

- **For the Year of Assessment 2019/2020**

Tax on income from a business consisting of betting and gaming, manufacture and sale or import and sale of liquor or tobacco product - 40%

7. Registration for Income Tax

Those who have not registered for income tax and not obtained a TIN are required to register with IRD for this purpose. You may simply get your TIN by accessing via: <https://eservices.ird.gov.lk/Registration/TINRegistration/ShowRequestHeader>, the web portal of the IRD.

Note: Relevant illustrations are appended

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

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Commissioner General of Inland Revenue



Illustrations

1. In the case where a resident individual receives only employment income

Illustration 1

Mr. A is CFO of company Q. His employment income for the First Period is 2,385,000 and for the Second Period is 1,115,000. PAYE tax has been deducted up to 31 December 2019 Rs.129,600. Expenses incurred for education locally during the First Period is Rs. 495,000 and for the Second Period is Rs. 200,000.

Calculation of Income tax liability

	First Period (Rs)		Second Period (Rs)	
Employment income		2,385,000		1,115,000
Assessable income		2,385,000		1,115,000
Deductions				
- Employment relief	525,000			
- Expenditure relief			200,000	
- Personal relief	375,000	(900,000)	750,000	(950,000)
Taxable income		1,485,000		165,000
Payable tax	450,000@4%	18,000	165,000 @ 6%	9,900
	450,000@8%	36,000		
	450,000@12%	54,000		
	135,000@16%	21,600		
		129,600		

$$\text{Payable tax for the Y/A 2019/2020} = 129,600 + 9,900$$

$$\begin{aligned} \text{Payable tax for the 4}^{\text{th}} \text{ instalment} &= \frac{A - C}{B} = \frac{139,500 - 129,600}{1} \\ &= \text{Rs. 9,900} \end{aligned}$$

A = Estimated tax payable

B = Number of instalments remaining

C = Tax paid and WHT deducted prior to the due date for payment of the instalment

Note:

1. When deducting the PAYE tax, employment relief of Rs. 525,000 and personnel relief of Rs. 375,000 have been deducted. Therefore, in calculating the taxable income of the year of assessment 2019/2020, such reliefs should be deducted from the employment income relevant to the First Period. If there is any un-deducted relief, such part can be deducted from the income relevant to the Second Period.
2. Expenditure relief is the aggregate of following payments made by a resident individual and can be deducted only up to Rs 300,000 (1,200,000 /4) in the Second Period
 - Health expenditure including the contributions to medical insurance
 - Education expenditure incurred locally for such individual or on behalf of his children
 - Interest paid on housing loans
 - Contribution made to an approved pension scheme
 - Expenditure incurred for the purchase of equity or securities

Illustration 2

Mr. B is an Assistant Manager of company S. His employment income for the First Period is Rs. 1,260,000 and for the Second Period is Rs. 450,000. PAYE tax has been deducted up to December 31, 2019 Rs.14,400. Expenses incurred for education locally during the Second Period is Rs. 100,000.

Calculation of Income tax liability

	First Period (Rs)		Second Period (Rs)	
Employment income		<u>1,260,000</u>		<u>450,000</u>
Assessable income		1,260,000		450,000
Deductions				
- Employment relief	525,000			
- Expenditure relief			100,000	
- Personal relief	<u>375,000</u>	<u>(900,000)</u>	<u>750,000</u>	<u>(850,000)</u>
Taxable income		<u>360,000</u>		<u>Nil</u>
Payable tax	360,000 @ 4%	14,400		Nil

Payable tax for the Y/A 2019/2020 = 14,400

Payable tax for the 4th instalment = $\frac{A - C}{B} = \frac{14,400 - 14,400}{0} = \text{No payable tax}$

Note:

PAYE has already been deducted for the First Period in accordance with the prevailing law. Total remuneration for the Second Period does not exceed Rs. 750,000. Hence with effect from January 1st, 2020, his employment income is not liable for income tax. According to Paragraph 4(B) any un deducted Personnel relief relevant to Second Period shall not be deducted from the employment income of the First Period in which PAYE tax has already been deducted. In addition, as per Paragraph 5, if income tax has been correctly calculated in accordance with the prevailing law, any refundable amount or payable amount that would be arisen due to the deduction of aggregate reliefs Rs 1,650,000 (525,000 + 1,125,000), will be disregarded. Therefore, calculation of 4th installment is not required.

2. Resident individual (other than senior citizens) may receive interest income and/or dividend income along with the employment income during the year of assessment 2019/2020.

Therefore, such employee can apportion the interest income according to one of the following 2 options.

Option 1 - Actual amount for respective periods

Illustration 3

Let's recall the illustration 1. In addition to the employment income, Mr. A received following income during the year of assessment 2019/2020

	First Period (Rs)	Second Period (Rs)
Interest income	1,600,000	900,000
Dividend income	150,000	100,000
Rent income	450,000	150,000

Calculation of Income tax liability

	First Period (Rs.)		Second Period (Rs.)	
Employment income		2,385,000		1,115,000
Investment income				
• Interest income	1,600,000			900,000
Final withholding payment	<u>(1,600,000)</u>			
Final WHT 5% (deducted)	<u>80,000</u>			
• Dividend Income	150,000			100,000
Final Withholding payment	<u>(150,000)</u>			
Final WHT 14% (deducted)	<u>21,000</u>			
• Rent income		<u>450,000</u>		<u>150,000</u>
Assessable income		2,835,000		2,265,000

Deductions				
- Employment relief	525,000		-	
- Rent relief	112,500		37,500	
- Expenditure relief			200,000	
- Personal relief	<u>375,000</u>	(1,012,500)	<u>750,000</u>	(987,500)
Taxable income		<u>1,822,500</u>		<u>1,277,500</u>
Payable tax	450,000@4%	18,000	750,000 @ 6%	45,000
	450,000@8%	36,000	527,500 @ 12%	<u>63,300</u>
	450,000@12%	54,000		<u>108,300</u>
	450,000@16%	72,000		
	22,500@20%	<u>4,500</u>		
		<u>184,500</u>		

Payable tax for the Y/A 2019/2020 = 184,500 + 108,300 = 292,800

Payable tax for the 4th instalment

$$\frac{A - C}{B} = \frac{292,800 - 129,600}{1} = \underline{\text{Rs. 163,200}}$$

Option 2 - Pro-rata basis as 3/4th of total interest income to the First Period and 1/4th to the Second Period

Illustration 4

Let's recall the illustration 1. In addition to the employment income, Mr. A received following income during the year of assessment 2019/2020. As well he donated Rs. 20,000 to cancer hospital during the year of assessment.

	First Period (Rs)	Second Period (Rs)
Interest income (matured in the Second Period)		3,600,000
Dividend income	150,000	100,000
Rent income	450,000	150,000

Calculation of Income tax liability

	First Period (Rs)		Second Period (Rs)	
Employment income		2,385,000		1,115,000
Investment income				
• Interest income	2,700,000		900,000	
Final withholding payment	<u>(2,700,000)</u>			
Final WHT 5% (not deducted)	<u>135,000</u>			
• Dividend Income	150,000		100,000	
Final Withholding payment	<u>(150,000)</u>			
Final WHT 14% (deducted)	<u>21,000</u>			
• Rent income		<u>450,000</u>		<u>150,000</u>
Assessable income		2,835,000		2,265,000
Deductions				
- Employment relief	525,000			
- Rent relief	112,500		37,500	
- Expenditure relief			200,000	
- Personal relief	<u>375,000</u>	<u>(1,012,500)</u>	<u>750,000</u>	<u>(987,500)</u>
		1,822,500		1,277,500
Deduction – QP		<u>(20,000)</u>		-
Taxable income		<u>1,802,500</u>		<u>1,277,500</u>
Payable tax	450,000@4%	18,000	750,000 @6%	45,000
	450,000@8%	36,000	527,500@12%	= <u>63,300</u>
	450,000@12%	54,000		<u>108,300</u>
	450,000@16%	72,000		
	2,500@20%	<u>500</u>		
		<u>180,500</u>		

Payable tax for the Y/A 2019/2020 = 180,500 + 108,300 = 288,800

Payable tax for the 4th instalment

$$\frac{A - C}{B} = \frac{288,800 - 129,600}{1}$$

$$= \text{Rs. } 159,200 + \text{Final WHT on interest } 135,000 \text{ (not deducted)}$$

$$= \text{Rs. } 294,200$$

Note: Interest income apportioned to the First Period (Rs. 2,700,000) is deemed as final withholding payment. Hence 5% tax should be paid on such final withholding payment along with the 4th instalment.

3. Interest income derived by a senior citizen

Resident senior citizen who derives interest income from financial institution during the year can be apportioned such interest income to the First Period and the Second Period according to one of the following options.

1. Actual amount for respective periods
2. Pro-rata basis as 3/4th of total interest income to the First Period and 1/4th of total interest income to the Second Period; or
3. If the interest income is received or the apportioned amount under item (ii) in the First Period is less than Rs. 1,500,000, then the interest amount to be allocated to the First Period shall be the amount (hereinafter referred to as “X”) as calculated below equation

$$X = 1,500,000 - \text{Actual interest income received in the First Period}$$

Option 1 - Actual amount for respective periods

Illustration 5

Mr. A is a senior citizen. Interest received from financial institutions during the First Periods and the Second Period is Rs. 1,600,000 and Rs. 900,000 respectively.

Calculation of Income tax liability

	First Period (Rs.)		Second Period (Rs.)	
Interest income	1,600,000			900,000
- Relief- interest	(1,500,000)			
Final withholding payment	100,000			
5% WHT (deducted)	<u>5,000</u>			
- Personal relief	NA			<u>(750,000)</u>
Taxable income				<u>150,000</u>
Payable Tax			150,000 @ 6%	9,000

Payable tax for the 4th installment = Rs. 9,000

Note: personnel relief of Rs. 375,000 is not entitled to the First Period since only income relevant to such Period is considered as final withholding payment. Hence such non-deductible relief must be ignored

Option 2- Pro-rata basis as 3/4th of total interest income to First Period and 1/4th of total interest income to the Second Period

Illustration 6

Mr. Perera is a senior citizen. Interest received from financial institutions during the Second Period is Rs. 5,500,000

Calculation of Income tax liability

	First Period (Rs.)		Second Period (Rs.)	
Interest income		<u>Nil</u>		<u>5,500,000</u>
Application of option 2				
Apportion basis		9/12		3/12
Interest Income		4,125,000		1,375,000
Deduction				
- Deduction- Interest relief		<u>(1,500,000)</u>		
Final withholding payment		2,625,000		
5% WHT (not deducted)		<u>131,250</u>		
Deduction				
- Personal relief		NA		<u>(750,000)</u>
Taxable income				<u>625,000</u>
Payable tax			625,000 @ 6%	37,500

$$\begin{aligned} \text{Payable tax for the 4th installment} &= 37,500 + 131,250 \text{ (Tax on final withholding payment @5\%)} \\ &= \underline{\text{Rs. 168,750}} \end{aligned}$$

Note:

Personal relief of Rs. 375,000 is not entitled to First Period since only income relevant to such Period is considered as final withholding payment. Hence non-deductible relief must be ignored.

Option 3- If the interest income is received or the apportioned amount under item (ii) in the First Period is less than Rs. 1,500,000, then the interest amount to be allocated to the First Period shall be the amount (hereinafter referred to as “X”) as calculated below equation

$$X = 1,500,000 - \text{Actual interest income received in the First Period}$$

Illustration 7

Mr. A is a senior citizen. Interest received from financial institutions during the First Period is Rs. 500,000 and for the Second Period is Rs. 1,400,000.

Calculation of Income tax liability

	First Period (Rs.)		Second Period (Rs.)	
Interest income	<u>500,000</u>		<u>1,400,000</u>	
Application of option 3				
Interest Income	500,000		1,400,000	
Apportioned interest of Second Period	<u>1,000,000</u>		<u>(1,000,000)</u>	
Apportioned interest income	1,500,000			400,000
Deductions -				
- Interest relief	(1,500,000)			-
- Personal relief	<u>NA</u>			<u>(750,000)</u>
Taxable income	NIL	-		NIL

Payable tax for 4th installment - No

Note: Personal relief of Rs. 375,000 is not entitled to First Period since only income relevant to such Period is considered as final withholding payment. Hence non-deductible relief must be ignored.

4. Dividend income derived by the individual

Such individual shall calculate the taxable income for the Second Period by considering the actual income received during the period.

Illustration 8

Mr. Perera received dividend income during the First Period and the Second Period Rs. 900,000 and Rs. 1,100,000 respectively.

Calculation of Income tax liability

	First Period (Rs.)		Second Period (Rs.)	
Dividend income		900,000		1,100,000
Final withholding payment		<u>900,000</u>		
Final WHT 14% (Deducted)		<u>126,000</u>		
Deduction				
- Personal relief		NA		<u>(750,000)</u>
Taxable income				<u>350,000</u>
Payable tax			350,000 @ 6%	21,000

Payable tax for the 4th instalment = Rs. 21,000

Note: Personal relief of Rs. 375,000 is not entitled to First Period since only income relevant to such period is considered as final withholding payment. Hence non-deductible relief must be ignored.

Illustration 9

Mr. A is a senior citizen. After his retirement he joined to XY PLC as a Director in November 2019. He received Rs. 200,000 per month as director fee. He derived Interest from a bank during the month of January 2020 is Rs. 1,920,000 and business income is 2,400,000 for the year of assessment 2019/2020. He incurred medical expenses Rs 100,000 for the Second Period. As well he donated Rs. 25,000 to Apeksha Cancer Hospital during the First Period of the Y/A 2019/2020. Installment payments made for prior 3 quarters is Rs. 40,000.

Mr. A wish to apply option 3 to allocate the interest income.

	First Period (Rs.)	Second Period (Rs.)
Employment income	400,000	600,000
Interest income	Nil	1,920,000
Business Income	9/12	3/12

Calculation of Income tax liability

	First Period (Rs.)		Second Period (Rs.)	
Employment income		400,000		600,000
Interest Income		1,500,000		420,000
Business income		<u>1,800,000</u>		<u>600,000</u>
Assessable income		3,700,000		1,620,000
Deductions				
- Employment relief	400,000		125,000	
- Interest relief	1,500,000		-	
- Expenditure relief	-		100,000	
- Personal relief	<u>375,000</u>	<u>(2,275,000)</u>	<u>750,000</u>	<u>(975,000)</u>
		1,425,000		645,000
QP - Donations		<u>(25,000)</u>		-
Taxable income		<u>1,400,000</u>		<u>645,000</u>
Payable tax –	450,000 @ 4%	18,000	645,000 @ 6%	38,700
	450,000 @ 8%	36,000		
	450,000 @ 12%	54,000		
	50,000 @ 16%	<u>8,000</u>		
		<u>116,000</u>		<u>38,700</u>

Total payable tax = 116,000 + 38,700 = Rs.154,700

Payable tax for the 4th instalment = $\frac{A - C}{B} = \frac{154,700 - 40,000}{1} = \underline{\underline{\text{Rs. } 114,700}}$