

CORPORATE AND PERSONAL TAXATION

SUBJECT NO: 304

UPDATES FOR THE
YEAR OF ASSESSMENT 2021/2022

IMPORTANT

Please note that the year of assessment tested for the forthcoming examinations under the new syllabus will be as follows;

Examination		Year of Assessment (Y/A)
2022 - July Exam	-	2021/2022
2023 - January Exam	-	2021/2022

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2.1.6 Basis of payment Example 1 should be amended as follows

Mr. Gamage is an employee of ABC Company. The company paid bonus of Rs. 500,000 in December 2021, out of the profit earned for the year of assessment 2020/21. Mr. Gamage is liable to tax on this bonus for the year of assessment 2021/22.

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*Should be amended as follows***2.1.7** Following rates are applicable w.e.f. 01.01.2020. (Without considering period of service)**(i) Concessionary rates**

Total terminal benefits from employment (Commutated Pension, retiring, gratuity, ETF or Approved compensation)	Tax payable
1st Rs. 10,000,000	0%
2nd Rs. 10,000,000	6%
On the balance	12%

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2.2.5.1 General Deductions (Section 10) - *should be amended as follows*

- Outlays or expenses for entertainment
W.e.f. 01.04.2021, "entertainment" means the provision to any person of liquor, tobacco, accommodation, amusement, recreation or hospitality of any kind" (Sec.195).

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2.2.5.4 Specific Deductions (Sec. 12 to 19) - *following points should be amended & added*

- Improvements (Section 14)
- Marketing and communication expenses (Section 15A)

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2.2.5.4.1 Interest Expenses (Section 12) - *should be amended as follows***Ex:**

Mr.Nimal is carrying on a business of selling computer accessories. He obtained a bank loan and utilised the loan proceeds as follows during the year 21/22.

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2.2.5.4.2 Thin Capitalization Rule (Section 18) - *should be amended as follows***This rule has been changed w.e.f. 01.04.2021.**

- (1) The amount of financial costs deducted in calculating the income of a company (other than financial institution) which is incorporated in or outside Sri Lanka and having an issued share capital as at the date on which the year of assessment ends, from conducting a business or investment for a year of assessment commencing from April 1, 2021, shall not exceed the limit given below.

$\frac{\text{financial cost of the year}}{\text{value of financial instruments on which financial cost incurred during the year}}$	X	$(4 \times \text{total of the issued share capital \& reserves}^* \text{ of the company as at the end of the year})$
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* Here, "reserves" exclude reserves arising from revaluation of any asset. Further, Any amount of finance cost unutilized in the current year may be carried forward up to six years, subject to the same thin capitalization restriction.

Important: Financial cost incurred (other than brought forward amounts) during the year of assessment commencing on April 1, 2021, shall be deducted irrespective of the limit referred above. That year of assessment shall not be recognized for the purpose of six years period referred above.

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Example - should be amended as follows

Company B is a garment factory and incurs interest expense amounting to Rs. 2,500,000 during the year of assessment 2021/22. Balance Sheet of the company as at 31.03.2022 revealed as follows.

Stated Capital	5,000,000
Reserves	2,000,000
Long Term Loans	30,000,000

Finance Cost attributable to financial instruments = (Rs. 2,500,000/Rs. 30,000,000) X [(Rs. 5,000,000 + Rs. 2,000,000) X 4] = 2,333,333

Finance Cost allowable to deduct in Y/A 2021/22 = Rs. 2,500,000

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Example - Replacing the Y/A in the example

Company A formed during year 2021/22 for the purposes

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Marketing and communication expenses

should be add before to 2.2.5.4.6 Capital allowances and balancing allowances

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Replacing the Y/A in the example

2019 for 2018	2020 for 2019	2021 for 2020
2022 for 2021	2023 for 2022	2024 for 2023

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2.2.5.4.7 - should be amended as follows

Improvements (Section 14)

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Replacing the Y/A in the example

2021 for 2020	2020 for 2019	2019 for 2018
2022 for 2021	2023 for 2022	2024 for 2023

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Marketing and Communication Expenses - *Add the topic numbers as follows*

2.2.5.4.10 Marketing and Communication Expenses

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Marketing and Communication Expenses - *(2) should be re-numbered as follows*

2. Subject to following conditions, a person shall be entitled to an additional deduction when calculating his income from business for a year of assessment, equal to 100% of the total amount of marketing and communication expenses deducted under section 15A during the three years of assessment commencing from April 1, 2021.

2. The additional deduction shall be made subject to the following conditions: - *Should be removed*

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Should be added as follows

Gazette notification 2258/18 dated 14.02.2021 has been issued in this regard.

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2.3.1 Dividend

As per proposed amendments to the Inland Revenue Act, w.e.f.01.01.2020, following dividends are exempted.
- *Should be amended as follows*

As per Inland Revenue Amendment Act, 10 of 2021, w.e.f. 01.01.2020, following dividends are exempted.

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2.3.2 Interest

As per proposed amendments to the Inland Revenue Act, w.e.f.01.01.2020, following dividends are exempted.
- *Should be amended as follows*

As per Inland Revenue Amendment Act, No. 10 of 2021 Following interest income are exempted.

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In addition to above, by the national budget 2021, following exemptions were given. - *Should be removed*

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As per proposed amendments to the Inland Revenue Act, - *Should be removed and add as the "Note"*

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Part C - *Should be amended as follows*

- c) With effect from April 1, 2019, any sum paid to the consolidated Fund or the President's Fund by a public corporation as required by the law by or under which such corporation is established.

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Below part should be added to the end of part (e)

Provided however, any amount which was not deducted during the three years period, by reason of the total assessable income in a year has not exceeded the above permitted

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3.2.2. Conditions in claiming qualifying payments

Personal Relief;

Point (a) - should be amended as follow and removed the Note end of (a)

- a. Rs. 3,000,000 for each year of assessment commencing on or after 01.01.2020 for the individual who is not a trustee, receiver, executor or liquidator.

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Relief for employment - *Topic should be amended as follows;*

Relief for employment - (Up to 31.12.2019 only)

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Relief for Interest - *Topic should be amended as follow and removed the Note*

Relief for Interest; (available up to 31.12.2019 only)

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Relief for Foreign Service Income - *Topic should be amended as follow and removed the Note*

Relief for Foreign Service Income; (available up to 31.12.2019)

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Part (f) should be amended as follow and added the Part (g)

Reliefs for resident individuals

- f. In the case of a resident individual, w.e.f. 01.01.2020, following expenditure up to a total sum of Rs. 1,200,000, incurred during a year of assessment could be deducted as relief in arriving at the taxable income.
- Health expenditure including contributions to medical insurance.
 - Vocational Education or other Educational expenditure incurred locally, by such individual or on behalf of his children
 - Interest paid on housing loans.
 - Contribution to any local pension scheme, other than for a scheme under the employer or on behalf of employer, by an employee.
 - Expenditure incurred for the purchase of shares or any other financial instrument listed in the Colombo Stock Exchange and licensed by the Securities and Exchange Commission of Sri Lanka or treasury bonds under the Registered Stocks and Securities Ordinance (Chapter 420) or treasury bills under the Local Treasury Bills Ordinance (Chapter 417);
- g. w.e.f 01.04.2021, in the case of a resident individual who has acquired solar panels to fix on his premises and connected to the national grid, Rs. 600,000 for each year of assessment, up to the total expenditure on such solar panels or up to the amounts paid to a bank in respect of any loan obtained to acquire such solar panels.

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Question 01

Y/A should be 2021/22

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Question 02

Y/A should be 2021/22

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Answer 02

Y/A should be 2021/22 *and taxable income should be Rs. 100,000*

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Question 03

Y/A should be 2021/22

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Question 04 - Question should be amended as follows;

What is the taxable income of Gayan for Y/A 2021/22?

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Question 05

Y/A should be 2021/22

Question 05 - Question should be amended as follow;

What is the aggregate qualifying payments of Sunimal for Y/A 2021/22?

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Answer 05

Y/A should be 2021/22

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3.3.1.1 Tax rates for resident and non-resident individuals - The sentence under the table should be change as follows

As per Inland Revenue (Amendment) Act No. 10 of 2021, w.e.f. 01.01.2020 following rates are applicable for individuals.

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Should be amended the sentence under the Part (b) as follows;

As per Inland Revenue Amendment Act No. 10 of 2021 income tax rates applicable on terminal benefits were revised w.e.f. 01.01.2020 as follows.

- on First Rs. 10 Mn 0%
- on Next Rs. 10 Mn 6%
- on Balance 12%

3.3.2.3 Reduced rate of 14% - *the paragraph should be amended as follows;*

W.e.f. 01.04.2021, an individual's following gains and profits shall be taxed @ the maximum rate of 14%,

and added the below part (a) and part (b) as follows;

- (a) consideration received in respect of gems and jewellery;
- (b) amounts received on the supply of electricity to national grid generated by using renewable energy resources by any individual.

3.3.4. The income tax rates applicable to companies (First Schedule) - *should be amended as follow*

Following tax rates are applicable to a company.

(1) Lower tax rates are applicable on profits from following activities of a company.

- (a) **With effect from 01.01.2020**, gains and profits from the business of a Small and Medium Enterprise, excluding such gains and profits from a business of betting and gaming or from the sale of liquor (in the case of liquor, other than those gains and profits from a business which is merely incidental to another business) – 14%
- (b) **With effect from 01.01.2020**, gains and profits from conducting a business of sale of goods or merchandise including export of goods, where the payment for such sale or export is received in foreign currency and remitted through a bank to Sri Lanka – 14%
- (c) **With effect from 01.01.2020**, gains and profits of a specified undertaking – 14%
- (d) **With effect from 01.01.2020**, gains and profits from providing educational services – 14%
- (e) **With effect from 01.01.2020**, gains and profits of an undertaking for the promotion of tourism – 14%
- (f) **With effect from 01.01.2020**, gains and profits from providing construction services – 14%
- (g) **With effect from 01.01.2020**, gains and profits from agro processing - 14%
- (h) **With effect from 01.01.2020**, gains and profits from providing health care services – 14%
- (i) **With effect from 01.01.2020**, gains and profits from dividends received from a resident company – 14%
- (j) **With effect from 01.01.2020**, gains and profits derived by any export company which is registered with the Board of Investments of Sri Lanka established by the Board of Investment of Sri Lanka Law, No.4 of 1978 from the consideration received in respect of health protective equipment and similar products supplied to the Ministry of Health, Department of Health Services, Sri Lanka Army, Sri Lanka Navy, Sri Lanka Air force, Sri Lanka Police and COVID Center - 14%
- (k) **Effective from 1.4.2022**, gains and profits of any company (even though a higher rate of income tax is applicable as provided under Inland Revenue Act or under any other written law) which lists its shares on or after January, 1 2021, but prior to December 31, 2021, in the Colombo Stock Exchange licensed by the Securities and Exchange Commission of Sri Lanka, for three years of assessment commencing from April 1, 2022 -14%
- (l) **Effective from 1.4.2021**, gains and profits from the consideration received in respect of gems and jewellery -14%

- (II) **Effective from 1.4.2021**, gains and profits from the supply of electricity to national grid generated using renewable energy resources by a company -14%
- (m) **Effective from 01.01.2020**, subject to item (a), (b), (c), (j) or (k) of above, gains and profits from manufacturing -18%;
- (2) **Higher rate of 40% is applicable on following profits.**
 - (n) **Effective from 01.01.2020**, gains and profits from conducting betting and gaming.
 - (o) **Effective from 01.01.2020**, gains and profits from the manufacture and sale or import and sale of any liquor or tobacco product.

Accordingly, "Predominant Rule" will not apply in future and based on the nature of taxable profits, relevant tax rate should be applied.

- (3) **Gains from the realisation of investment assets (capital gains),-** those gains, shall be taxed at the rate of **10%**;
- (4) Standard Rate of **24%** will be applicable to any other taxable income of a **company**.

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The topic should be amended as follows;

As per Inland revenue Amendment Act No. 10 of 2021 w.e.f.01.04.2021 following are also included

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(vii) "Predominantly" means 80% or more calculated based on gross income - ***Should be removed the (vii)***

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3.5 Format of a tax computation for a person - Y/A should be 2021/22

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Expenditure Relief in the table should be amended as follows;

Expenditure Relief - Maximum Rs. 1,200,000

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Following points should be amended as follows under the 3.6.1. Exempt Income (Schedule 03)

- (h) I. Gain made on realisation of an asset consisting of shares quoted in any official list published by any stock exchange licensed by the Securities and Exchange Commission of Sri Lanka;
- II. A gain made by a person **on or after April 1, 2021** from the realisation of land or building which was sold, exchanged or transferred to a real estate investment trust listed in the Colombo Stock Exchange and licensed by the Securities and Exchange Commission of Sri Lanka.
- (i) I. The interest derived by a charitable institution, where it is proved to the satisfaction of the Commissioner General that such interest is applied solely for the purpose of providing care to children, the elderly or the disabled in a home maintained by such charitable institution;
- II. 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
- III. 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 on or after 01.01.2020

- IV. Interest income from "Special Discount Account"
 - V. The interest accruing to or derived by any welfare society, on or after April 1, 2021.
 - VI. interest income of any multi-national company on any deposit opened and maintained in foreign currency in any domestic bank, if such deposit is maintained to cover its import expenditure for that year of assessment, on or after April 1, 2021.
- (j) Any prize received by a person as an award made by the President of the Republic of Sri Lanka or by the Government in recognition of an invention created, or any research undertaken, by such person;
 - (k) I. Any sum received by a person from the President's Fund or National Defence Fund
II. Any sum 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
 - (l) Any income earned by
 - i. 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
 - ii. 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
 - iii. a gain from the realisation of Sri Lanka international sovereign bonds issued by or on behalf of the Government of Sri Lanka and received or derived by a commercial bank or authorized dealer who made an aggregate investment not less than USD 100 million in such bonds on or after April 1, 2021;
 - iv. interest or discount accrued or derived on or after April 1, 2021 by any Samurdhi community-based banks from security or treasury bonds under the Registered Stocks and Securities Ordinance (Chapter 420) or treasury bills under the Local Treasury Bills Ordinance (Chapter 417);
 - (m) Any amount derived by a senior citizen from an annuity for life for a period of not less than ten years purchased from a bank or an insurance company registered under the Regulation of Insurance Industry Act, No. 43 of 2000;
 - (n) Any winning from a lottery, the gross amount of which does not exceed Rs. 500,000;
 - (o) A dividend paid **prior to 01.01.2020** by a resident company to a member to the extent that dividend payment is attributable to, or derived from, another dividend received by that resident company or another resident company that was subject to withholding under section 84;

on or after January 1, 2020, a dividend paid by a resident company-

- (i) to a member to the extent that such dividend payment is attributable to, or derived from, gains and profits from dividend received by that resident company;
in this paragraph, "gains and profits from dividend" means the dividend received by that company after the deduction of expenses or losses, if any, subject to the provisions of IR Act and income tax paid or payable on such dividend received by that company
- (ii) to a member who is a non-resident person;
- (iii) A dividend paid by a resident company which is engaged in any one or more of the following businesses in accordance with the provisions of the PART IV of the Finance Act No. 12 of 2012 and within the meaning of an agreement entered into with the Board of Investment of Sri Lanka established under the Board of Investment of Sri Lanka Law, No.4 of 1978:-
 - (i) Entrepot trade involving import, minor processing and re-export;
 - (ii) Offshore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing the same into Sri Lanka;

- (iii) Providing front end services to clients abroad;
 - (iv) Headquarters operations of leading buyers for management of financial supply chain and billing operations;
 - (v) Logistic services such as bonded warehouse or multi- country consolidation in Sri Lanka.
- (p) Benefits received or derived by an employee of the government of Sri Lanka from a road vehicle permit issued to that employee;
- (q) The profits and income from any property donated by royal or other grant before March 2, 1815, to any place of public worship administered by a charitable institution, in so far as such profits and income are applied to the purposers for which such grant was made;
- (r) Dividends from and gains on the realisation of shares in a non-resident company where derived by any person with respect to a substantial participation in the non-resident company. In this paragraph, "substantial participation" means-
- I Holding 10 percent or more of the value of shares in the company, excluding redeemable shares; together with
 - II Control, either directly or indirectly, of 10 percent or more of the voting power in the company;
- (s) Any amount derived by a person from the sale of any gem on which tax has been deducted under subsection (2) of section 84.
- (t) Any amount derived on or after April 1, 2018, by any non-resident person as any payment for air craft, software licences or as for other related services from the Sri Lankan Airlines Limited;
- (u) The gains and profits earned or derived by any person from-
- i. The sale of produce of an undertaking for agro farming of such person within 5 years of assessment commencing from April 1, 2019;
 - ii. Providing information technology and enabled services on or after 01.01.2020, as may be prescribed; (Gazette notification 2234/6 dated 29.06/2021)
 - iii. Any service rendered in or outside Sri Lanka to any person to be utilized outside Sri Lanka, where the payment for such services is received in foreign currency and remitted through a bank to Sri Lanka on or after 01.01.2020;
 - iv. Any foreign source [other than gains and profits referred to in item (iii)] where such gains and profits earned or derived in foreign currency and remitted through a bank to Sri Lanka on or after 01.01.2020
 - v. any vocational education programmes of any Vocational Education Institution which is standardized under Technical and Vocational Education and Training concept (TVET concept) and regulated by the Tertiary and Vocational Education Commission:
 - (a) if such institution has doubled its student intake of the vocational education programmes for such year of assessment compared to the student intake of such programmes in the year of assessment immediately preceding that year of assessment;
 - (b) for a period of five years commencing on April 1, 2021:
Provided however, for the purpose of paragraph (a), any institution which doubled the student intake of the vocational education programmes as provided for in the first year and maintained the same student intake of such programmes of the first year for the next four years shall be deemed as an institution which fulfilled the requirement in such years;
- (vi) any business of export of gold, gems or jewellery or from the business of cutting and polishing of gems which are brought to Sri Lanka and exported after such cutting and polishing, where such gains and profits earned in foreign currency are remitted through a bank to Sri Lanka, with effect from April 1, 2021;

-
- (v) Any amount derived by any of below on or after 01.01.2020
- any non-resident person from laboratory services or standards certification services;
 - any religious institution which is registered with the Ministry in charge of the subject of religious affairs, by way of grants or donations.
- (w) Gains and profits received or derived from business (other than any gains from the realization of capital assets and liabilities of the business as calculated under Chapter IV of the IRA) by a person from following new undertakings (which is not formed by splitting-up or re-construction of an existing undertaking) commenced on or after April 1, 2021. Tax exemption can be claimed during the specified period subject to the stated conditions.
- a) Ten-year tax exemption period for an undertaking which sells construction materials recycled in a selected separate site established in Sri Lanka to recycle the materials which were already used in the construction industry. (In any case, if recycled materials are used by the same person for construction services, this exemption can be claimed by deeming such materials as have been sold to the construction service business at market price)
 - b) Five-year tax exemption period for any business commenced on or after April 1, 2021 by an individual after successful completion of vocational education from any institution which is standardized under TVET concept and regulated by the Tertiary and Vocational Education Commission.
 - c) Seven-year tax exemption period for an undertaking commenced by a resident person in manufacturing of boats or ships in Sri Lanka and received or derived any gains and profits from the supply such boats or ships.
 - d) Seven-year tax exemption period for any “renewable energy project” established with a capacity to generate not less than one hundred Mega Watts solar or wind power and supplies such power to national grid.
 - e) Five-year tax exemption period for any undertaking commenced on or after January 1, 2021 by any resident person who constructs and installs the communication towers and related appliances using local labours and local raw materials in Sri Lanka or provide required technical services for such construction or installation.
 - f) Any undertaking for letting bonded warehouses or warehouses related to the offshore business in Colombo or Hambanthota ports, if such person has invested on such warehouses on or after April 1, 2021. Tax exemption period provided in above item x [(a) to e)] shall be reckoned from the year of assessment in which the undertaking commences to make profits from transactions entered into in that year of assessment or from the commencement of the year of assessment immediately succeeding the year of assessment in which the undertaking completes a period of two years reckoned from the date on which the undertaking commences to carry on commercial operations, whichever occurs earlier.

Remittance tax (at the rate of 14% on remitted profits) is not required to be paid by a non-resident company carrying on a business in Sri Lanka through a Sri Lankan permanent establishment which earns profits and income on or after April 1, 2021 and retained such total profits for minimum of three years period by investing in Sri Lanka to expand its business or to acquire shares or any securities from Colombo Stock Exchange or to acquire treasury bills, treasury bonds or Sri Lanka International sovereign bonds issued on behalf of the Government of Sri Lanka. The exemption is applicable on such retained and invested profit is remitted whenever after that three years.

3.6.2. Final withholding payments - *Should be amended and added as follows;*

- Dividend paid (Prior to 01.01.2020) by a resident company to a resident person.
- Payment of interest to a resident individual (Other than interest paid to a senior citizen up to the relief threshold given.(i.e up to Rs.1.5Mn)
- Interest paid to a charitable institution.
- Amount paid as winnings from a lottery, reward, betting or gambling, other than amounts received in conducting a business consisting of betting and gaming , and
- Payment made to non-resident persons that are subject to withholding (other than payments derived through a Sri Lankan Permanent Establishment)

Final withholding payments on or after January 1, 2020

- (a) amounts paid as winnings from a lottery, reward, betting or gambling, other than amounts received in conducting a business consisting of betting and gaming;
- (b) payments made to a non-resident person who is not a citizen of Sri Lanka or to a nonresident entity that is subject to withholding, other than payments derived through a Sri Lankan Permanent Establishment; and
- (c) interest paid to or treated as being derived by a non-resident individual who is a citizen of Sri Lanka:

However, the following interest amounts shall not be deemed as final withholding payments to such non-resident individual who is a citizen of Sri Lanka: -

- (i) such amount of interest paid and falling within the relief threshold in paragraph 2(a) of the Fifth Schedule to IR Act(personal relief); or
- (ii) such amount calculated by deducting the total of other sources of assessable income (total assessable income other than interest) from the relief threshold if the total of assessable income from other sources does not exceed the relief threshold.;

Question 06

Y/A should be 2021/22

Removed the (Primary Employment)

Answer 06

Personal Allowance for Individuals - ***Amended as;*** Personal relief

Question 07 - *Should be amended the year of 2nd point of No. (1) as below;*

- Bonus of Rs. 200,000/- was received in March 2022.

Question 07

Y/A should be 2021/20 and 2022 for 2021 for 2018 and 2022 for 2019

Schedule 02 - Investment income

Total figure should be - 1,099,000

Question 08

Replacing the Y/A in the question 8 as follows;

2022 for 2021 2019 for 2018 2021 for 2020

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In the table of Cost

Y/A should be 2021/20 and 2022 for 2021

In the table of Accumulated Depreciation

Y/A should be 2021/20 and 2022 for 2021

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Answer 08

Y/A should be 2021/20 and 2022 for 2021

And should amended as follows;

Tax Computation for the Year of assessment 2021/22.

				+	-
				Rs.	Rs.
Profit before Tax				9,240,000	
Rent income					
Dividend - Investment Income					1,720,000
Interest from Treasury Bond - Investment Income					1,600,000
Accounting loss from disposal of lorry				1,200,000	
<u>Balancing allowance from Motor lorry</u>					
Profit/loss= 1,300,000 - (4,000,000 - (4,000,000x20% x 3)) = 1,300,000 - 1,600,000 loss = (300,000)					300,000
Accounting Depreciation				4,745,000	
Amortisation				400,000	
<u>Capital Allowances</u>	<u>Year of Aquired</u>	<u>cost</u>			
Building	17/18	15,000,000	10%		1,500,000
Machinery	17/18	21,000,000	33.33%	fully claimed	-
Machinery	21/22	3,675,000	5 years		735,000
Computers	17/18	1,450,000	25%	fully claimed	
Computers	21/22	120,000	5 years		24,000
Locally dev. Software	17/18	500,000	100%	fully claimed	0
Disposed Lorry	18/19	4,000,000	no CA		-
Vehicles - Balance	17/18	2,650,000	20%		530,000
Leased lorry	21/22	6,400,000	5 years		1,280,000
Car	21/22	2,000,000	no CA		-

Furniture	17/18	1,240,000	20%			248,000
Furniture	21/22	50,000	5 Years			10,000
Intangible asset	21/22	2,000,000	20 years			100,000
Repairs Rs.60,000- allowed						-
Cost of construction - Capital Nature						600,000
<u>Improvement</u>						
Tax written down value as at 31.03.2021		9,000,000				
	5% of WDV	450,000				
Actual cost		600,000				450,000
Gross Rent paid to manager's residence						504,000
Monthly Remuneration of Sale Manager						170,000
Housing benefit for Employment						
Provision for Bad and doubtful debt						280,000
Written off - fully allowed						-
Entertainment expenses - not allowed						210,000
ESC Unclaimable						2,200,000
Donation						1,000,000
Interest paid (application of section 18)						
Share Capital + Reserves						10,000,000
A X B (manufacturer B=3)			(10,000,000 x 3) = 30,000,000			
Interest paid						7,000,000
Loan borrowed		44,900,000				
Lease capital (6,400,000 - 1,300,000)		5,100,000		50,000,000		
(assume no other creditors)						
Finance cost attributable to Financial Instruments			7/50 = 0.14			
Allowable amount = (A x B x attributable rate)		30,000,000 x 0.14		4,200,000		
Not allowable (C/F)		7,000,000-4,200,000			2,800,000	
Assume all other expenses incurred in production of Income and uncontrolled transactions.						
					29,179,000	8,497,000
Business Profit before adjusting losses					20,682,000	
less : B/F losses					(5,000,000)	
Business Income					15,682,000	
Investment Income - (note 1)					3,320,000	
Assessable Income					19,002,000	
Qualifying payments						
limited to 1/5 of TI or Rs. 500,000					(500,000)	

Taxable Income		18,502,000	
Tax liability			
Business Income	15,682,000 x 18% =	2,822,760	
Dividend	1,720,000 x 14% =	240,800	
Interest	1,100,000 x 24% =	264,000	3,327,560
Less - Tax Credits		-	
Balance Tax Payable		3,327,560	

-Page 84 -

Gazette No. should be change as follows in the No. (ii) under the "a person"

(specified in gazette 2217/7 dated 02.03.2020)

-Page 84 -

Paragraph should be changed as follows;

Regulations on transfer pricing have been published through Gazette notification 2217/7 dated 02.03.2020 and they are effective from 01.04.2020. These TP regulations will apply to all international transactions. However, in the case of domestic transactions, the TP provisions will be applicable only in the following cases;

-Page 84 -

Documentation requirements

In the Point No. 2 - Should be Euro 50 million in the paragraph.

Point No. 3 - Should be changed as follows;

3. Taxpayers are required to prepare and submit the Country by Country Report (CbCR) if the group turnover exceeds Euro 750 million in the preceding reporting fiscal year. This contains certain information relating to the global allocation of the multinational group's income and taxes paid together with certain indicators of the location of economic activity within the group.

CHAPTER 04

Taxation of Miscellaneous Undertakings

-Page 89 -

4.1.1 Taxation of a Partnership (Section 53 to 56)

1st paragraph should be amended as follows;

As per Sec. 53(1A) every partnership shall be liable to pay income tax w.e.f. 01.01.2020, separately from its partners. A partnership in and of itself does not have a separate legal personality. However, for income tax purposes, a partnership is treated as an "entity".

2nd point should be removed

5th point should be added as follows;

- Subject to the provisions of IRA, the partnership is allowable to deduct any qualifying payments made during the year of assessment.

9th & 10th points should be removed

9th point should be added as follows;

- Each partner in a partnership shall be responsible for performing any duty or obligation imposed by Inland Revenue Act on the partnership in relation to its income tax payable.

Following should be removed

Changes proposed w.e.f. 01.01.2020

As per amendments proposed to Inland Revenue Act, WHT of 8% on any partner's share of partnership income is replaced with a tax on partnership with effect from 01.01.2020.

Applicable tax rates are as follows.

If taxable income consists of Gains on realization of investment assets,

Taxable Income

	Tax Rate
Gains on realization of investment assets	0%
Balance Taxable Income Not exceeding Rs. 1,000,000	0%
Exceeding Rs. 1,000,000	6% on the excess of Rs. 1,000,000

4.1.2 Taxation of Partners - 1st point should be changed as follows;

- The partners of a partnership are required to **account for tax on their respective proportionate share of partnership income**. The share of partnership income of a partner is determined based on the partner's percentage interest in any income of the partnership as set out in the partnership arrangement, [sec. 55(5)].

4th point should be changed as follows;

- Tax paid by partnership with respect to the partnership income shall be allocated to the partners, proportionately to each partner's share and shall be treated as paid by the partner, [sec. 55(4)].

Following should be removed

As per the changes proposed to the Inland Revenue Act, No. 24 of 2017 (IRA), pending formal amendments being made to the Act, WHT of 8% on partners' share of partnership income is replaced with a tax on partnership w.e.f. 01.01.2020. Income tax liability of the partnerships and partners in a partnership shall be computed in accordance with the instructions set out below.

1. Partnership shall be liable to pay income tax in respect of its taxable income (including any gains from the realization of any investment assets) with effect from 01.01.2020. However, no changes to the computation of Income Tax Liability on the realization of any investment asset of the partnership.

-Page 92 -

Answer 01 - should be amended as follows under the Taxable income

Partnership income share of Mr. A	=	Rs.	10,250,000
Partnership income share of Mr. B	=	Rs.	10,250,000

-Page 94 -

4.2.2.1.1 Taxation of trusts - 3rd paragraph should be amended as follows;

Trust should pay tax on Gains from realization of investment assets at 10% and at 18% (w.e.f. 01.01.2020) on other taxable income.

-Page 95 -

Question 02

Y/A should be 2021/22

-Page 97 -

4.3.2.1 Unit Trust not carrying out an "eligible investment business" - should be removed the following from 02nd point

This means that the unit trust must withhold tax at 14% on all distributions to its unitholders.

-Page 97 -

Should be amended the following point as follows;

- As per section 68, a non-government organization shall pay an additional tax of 3% of amounts received in each year of assessment by way of grant, donation or contribution or in any other manner at the rate of 24% (w.e.f.01.01.2020)

-Page 98 -

Should be amended the 1st and 2nd point as follows;

- If a non governmental organisation has a gain from the realization of investment assets such gain is taxed at the rate of 10%
- Other taxable income of a nongovernmental organization is taxed at the rate of 24%. (w.e.f. 01.01.2020)

-Page 98 -

Following should be removed,

As per Amendment proposed to Inland Revenue Act,

tax rate will be reduced to 24% w.e.f. 01.01.2020 (Other than capital gains)

-Page 98 -

Question 03

Y/A should be 2021/22

-Page 99 -

Following should be added as a sub topic before the bullet points;

Tax rates for a charitable institutes

-Page 99 -

Note - Should be amended as follows;

Note : As per Inland Revenue amendment Act, No. 10 of 2021 w.e.f. 01.01.2020, any amount derived by any religious institution which is registered with the Ministry in charge of the subject of religious affairs, by way of grants or donations is exempted.

-Page 99 -

Question 04

Y/A should be 2021/22

CHAPTER 05 | Obligations and Procedures

-Page 103 -

5.1.1.1 Due Dates - *should be amended as follows;*

Due dates for quarterly installments are given below,

-Page 103 -

5.1.1.2 How to calculate - *equation should be amended as follows;*

$$\text{Installment Payment} = \frac{\text{Estimated tax payable for the Y/A} \cdot \left[\text{Installment payments} + \text{WHT upto due date of instalment} \right]}{\text{Remaining no. of installments for Y/A}}$$

-Page 103 -

Below paragraphs should be added to end of 5.1.1.2.

However, (Effective from 01.04.2020) in calculating the estimated tax payable by an instalment payer, the Advance Personal Income Tax (APIT) deducted by an employer or to be deducted by an employer for the year of assessment may be deducted prior to applying the formula given above.

Further, a partner in a partnership shall be entitled to a tax credit in calculating the amount of current instalment of tax payable for such share of tax credit amount treated as being paid by the partner, but subject to the payment of the same instalment due by the partnership.

-Page 104 -

Question 01

Y/A should be 2021/22

-Page 104 -

Answer 01

Date should be 15th November 2021

-Page 104 -

5.1.2 Tax payable on assessment

Y/A should be 2021/22

-Page 105 -

5.1.2 - Y/A should be 2021/22

-Page 105 -

Following Note should be removed;

Note: With the increase of personal relief and removal of PAYE by proposed changes, above (ii) will not be applicable from Y/A 2019/20.

-Page 105 -

5.2.3 Capital gain tax Return - Should be amended as follows;

Every person with taxable income consisting of a gain from the realisation of an investment asset shall file with the Commissioner-General a capital gains tax return within 30 days after the end of the relevant calendar month in which the realization occurred. (w.e.f. 01.04.2021).

-Page 106 -

Topic should be amended as follows;

5.2.4 Notice to require filing [Sec. 127]

-Page 106 -

Below paragraph should be added as 03rd paragraph under the 5.2.4;

w.e.f 01.04.2021, a company which is incorporated in or outside Sri Lanka or a public corporation shall only file its tax returns electronically through the use of a computer system or mobile electronic device.

-Page 106 -

Question 02

Y/A should be 2021/22

-Page 106 -

Answer 02

(i) Date should be changed as 30.11.2022 for 30.11.2021

The No. ii point should be amended as follows;

(ii) Tax payer should file a capital gains tax return within 30 days from the end of relevant calendar month of realization occurred.

-Page 106 -

5.2.5 - Should be amended and added as follows;

5.2.5 Information to be furnished along with return [Section 93 (2)]

- Withholding tax certificates (includes AIT and APIT certificates)
 - the person's assessable income for the year from each employment, business , investment and other income and the source of that income
 - the person's taxable income for the year and the tax payable with respect to that income
 - any tax paid by the person for the year by withholding, instalment or assessment for which a tax credit is available
 - the amount of tax remaining to be paid for the year
- Information specified by CGIR

should be attached to the return.

-Page 109 -

The topic should be amended as follows;

5.4.2 Administrative review (Section 139)

-Page 110 -

The topic 5th point under the 5.4.2 should be amended as follows;

- On receipt and acknowledgement of a tax payer's request, the Commissioner-General shall review the assessment or other decision and notify the taxpayer in writing of the Commissioner-General's decision and the reasons for the decision. Taxpayer's request shall be considered by a tax official other than the tax official who made the assessment or other decision.

-Page 110-

5.4.3 Appeal from Administrative Review. (Section 140) - 1st point should be amended as follows;

- A person aggrieved by the decision of administrative review of an assessment under section 139 may appeal against the decision of review to the Tax Appeals Commission.

-Page 110-

Part (b) under the 5.4.3 should be amended as follows;

- (b) Seven months (w.e.f. 01.04.2021) have lapsed since the request for administrative review was made.

-Page 110-

5th point should be amended as follows;

- A petition of appeal under section 140, shall be given in writing to the Tax Appeals Commission with a copy to the Commissioner-General within 30 days from the date of receipt of decision of the Commissioner-General or within 30 days from the date on which the period of seven months lapsed since the request for administrative review was made.

-Page 112-

Should be amended as follows under the 5.5.1;

CGIR cannot make recovery actions, if the tax payer has

-Page 119 -

Should be amended as follows;

6.1.2.1 Withholding from Remuneration of Employees by Employers (Section 83A)

Provisions applicable w.e.f. 01.01.2020 are given in Section 83A.

As per Sec. 83A, an employer shall deduct an Advance Personal Income Tax with effect from April 1, 2020 on any payment which falls under employment income, if such employee-

Should be amended as follows;

6.1.2.2 Withholding on Investment Returns (Section 84 & 84A) & Service Fees (Section 85)

As per Sec. 84, from 01.01.2020 WHT should be deducted at the time of payment on following payments at respective rates.

	Type of Payment	WHT rate
i	Winnings from a lottery, reward, betting or gambling	14%
ii	Sale price of any gem sold at an auction conducted by National Gem and Jewellery Authority.	2.5%
iii	Payment of dividend, interest, discount, charge, natural resource payment, rent, royalty, premium, service fee or an insurance premium with a source in Sri Lanka which is made to a non resident person	14%
iv	Payments made to non resident persons conducting <ul style="list-style-type: none">• transport business as specified in section 73(1)(h).• telecommunication business as specified in section 73(1)(i)	2%

Following contents should be removed;

Note : *As per the amendments proposed to Inland Revenue Act, Requirement for deduction of WHT on any payment which is due and payable to any of the following persons is removed with effect from January 01, 2020.*

1. Resident person in respect of the dividend, interest, discount, charge, natural resource payment, rent, royalty, premium or retirement payment received.
2. Resident partner in respect of the partner's share of profit allocated by the partnership
3. Resident individual in respect of any service fee paid.

As per the circular No.SEC /2020/04 issued by the Department of Inland Revenue, following provisions are applicable w.e.f.01.04.2020.

6.1.2.2.1. Payments of whom subject to WHT

- i. WHT shall be deducted on any of above payments which has a source in Sri Lanka except the exempt amounts paid to any non-resident person.
- ii. Payments to any person (Resident or non-resident) of any amounts as winning from lottery, reward, betting or gambling, or Sale price payable to the seller of any gem sold at an auction conducted by the National Gem & Jewellery Authority are liable to be deducted WHT.

Should be removed whole content (i-viii) under the Exempt Income

Advance Income Tax (AIT) - Removed the 1st Paragraph and should be replaced as below;

With effect from April 1, 2020, the taxpayer who is resident in Sri Lanka may make a request to the withholding agent to deduct Advance Income Tax from the payment of dividend, interest, discount, charge, natural resource payment, rent, royalty, premium or similar periodic payment that the payment or allocation has a source in Sri Lanka. On the receipt of such request, a withholding agent shall deduct advance income tax as specified by the Commissioner-General.

-Page 127 -

Added the below paragraphs to end of the 6.2.1.4 as follows;

W.e.f. April 1, 2021, The consideration received for the realisation of an investment asset of a person shall be the amount received or receivable by the person in respect of such asset or the assessed value at the time of realisation, whichever is higher :

Provided, however, a tax official may determine the consideration received for an asset in terms of above, if such tax official is of the opinion that the assessed value is not indicative of the market value of such asset.

For the purpose of this subsection, "assessed value" means the value at the time of the realisation, certified by a professionally qualified valuer in a valuation report.

-Page 127 -

Should be amended and added as follows;

6.2.1.5 Cost of an Investment Asset

For an investment asset held by a person as at 30.09.2017, cost of asset is equal to the market value of the asset at that time.

The cost of an asset of a person shall be the sum of –

- (a) expenditure incurred by the person in acquiring the asset including, where relevant, expenditure on construction, manufacture or production of the asset;
- (b) expenditure incurred by the person in altering, improving, maintaining or repairing the asset;
- (c) incidental expenditure incurred by the person in acquiring and realising the asset;

-Page 127 -

Should be amended sub topic number as follows;

6.2.1.6 Tax Rate - 10%

-Page 127 -

Amended the sub topic number as 6.2.1.7 for 6.2.1.6

-Page 127 -

Should be amended the paragraph as follows;

6.2.1.7 Furnishing of CGT Returns & Payment of Tax

Every liable person shall file CGT return and make payment within 30 days month after the end of relevant calendar month in which the occurred realization of investment asset.

-Page 128 -

Removed the Note under the sub topic number 6.2.1.7

-Page 140 -

Should be removed and amended as following under the "Following persons are required to register for VAT" of 7.1.2.1

Following persons are required to register for VAT

Suppliers of goods & services (including importers, retail & wholesale trading on or after 01.01.2020)

Any person who supply taxable goods or services in excess of Rs.300 million per annum or Rs. 3 million per quarter as a trade, business, profession or vocation is required to register for VAT.

- There are certain goods & services which are exempted from VAT. Such exempted turnover should be excluded in calculating above annual and quarterly turnover thresholds.
- Importers- All importers are required to register for VAT. If the taxable turnover is less than the above limit those importers can register temporary (conditionally)

-Page 140 -

"Total supplies" means - *Totally removed*

-Page 143 -

Figures are converted to Mn. as follows in the 7.1.2.3.1 Compulsory Registration - (Section 10)

Rs. 3,000,000 - Rs. 3 Mn

Rs.12,000,000 - Rs. 12 Mn

-Page 145 -

Amended the below points as follows;

7.1.3.2 Composition of a Tax Invoice

- (b) The name, address and registration number of the person to whom the supply was made;
- (c) The date on which the tax invoice was issued and its serial number which does not exceed 40 characters without any space;

-Page 146 -

Amended the below points as follows;

Answer 5

- (b) The name, address and registration number of the person to whom the supply was made;

-Page 146 -

Amended the below points as follows;

7.2.1 Zero Rate is applicable to supply of; (Section 7)

- (a) Goods exported by the supplier (The ultimate exporter is covered while the indirect exports are not covered) for which payment is received in foreign currency through a bank in Sri Lanka licenced under the Banking Act, No. 30 of 1988 within a period of six months from the end of the taxable period of which such exportation has taken place (w.e.f. 13.05.2021)
- (b) Services directly connected with;
 - (i) Any movable or immovable property situated outside Sri Lanka, for which payment is received in foreign currency through a bank in Sri Lanka licenced under the Banking Act, No. 30 of 1988 within a period of six months from the end of the taxable period of which such exportation has taken place (w.e.f. 13.05.2021)
 - (ii) Any repair of foreign ship, aircraft or any merchant ship registered in SL or refurbishment of marine cargo containers
 - (iii) Any goods imported for re-export under "entre - pot" trade for which payment is received in foreign currency through a bank in Sri Lanka licenced under the Banking Act, No. 30 of 1988 within a period of six months from the end of the taxable period of which such exportation has taken place (w.e.f. 13.05.2021)

- (iv) Intellectual property right such as copyright, patent, licence, trademark where such right is for use outside Sri Lanka for which payment is received in foreign currency through a bank in Sri Lanka licenced under the Banking Act, No. 30 of 1988 within a period of six months from the end of the taxable period of which such exportation has taken place (w.e.f. 13.05.2021)
- (iv) International transportation (including trans - shipment) of goods or passengers as are specified in gazette (Gazette No. 1267/5 of 17.12.2002).
- (v) Computer software development in respect of software developed for use wholly outside Sri Lanka,
- (vi) Client support services provided through internet or telephone to identify clients outside Sri Lanka by an enterprise setup exclusively for that purpose, if the payment is received in foreign currency through a bank in Sri Lanka, within 6 months from end of taxable period of which service is provided.
- (vii) Provision of services to overseas buyers by a garment buying office registered with the Ministry of Industries under the supervision of the Textile Quota Board, where payment for such service is received in foreign currency through a bank in Sri Lanka in so far as such services are identified by the Commissioner General as being services essential for facilitating the export of garments to such overseas buyers. for which payment is received in foreign currency through a bank in Sri Lanka licenced under the Banking Act, No. 30 of 1988 within a period of six months from the end of the taxable period of which such exportation has taken place (w.e.f. 13.05.2021)

Note : *w.e.f 01.12.2019, Supply of services by a hotel, guest house, restaurant or other similar businesses providing similar services, registered with the Sri Lanka Tourism Development Authority is treated as zero rated if 60% of the total value of the inputs of prior period are sourced from local supplies / sources, is liable at the rate of 0%.*

If the payment in respect of supply of goods or services is not received in foreign currency through a licenced bank in Sri Lanka within a period of six months from the end of the taxable period of which such exportation has taken place or supply of such service is provided, as the case may be, and if it is proved to the satisfaction of the Commissioner- General that such goods are exported or the services are performed, zero rate can be applied.

-Page 149 -

Amended the Tax Rates (Section 2, 7, & 22) as follows;

Tax Rates (Section 2, 7, & 22)

Rates of VAT

Zero rate	0% (Section 7)
Standard rate from 01.11.2016 to 30.11.2019	@ 15%
From 01.12.2019	@ 8%

Special rate (Per piece/Kg)

For sales by export oriented manufacturers within the limit permitted by the Board of Investment of Sri Lanka, VAT should be paid at a Special rate based on the number of pieces produced.

w.e.f. 01.01.2021 following special rates are applicable.

- *Rs. 25 per each garment other than panties, socks briefs and boxer shorts.*
- *Rs. 25 for 6 pieces of panties, socks, briefs and boxer shorts.*

-Page 153 -

Question 09

Date should be 31.12.2021

-Page 153 -

Question 10

Date should be 31.03.2022

-Page 153 -

Answer 09

Dates should be as below

20.11.2021	20.12.2021	20.01.2022
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-Page 154 -

Answer 10

Dates should be as below

31.03.2022	20.04.2022
------------	------------

-Page 160 -

Added a sub topic (only topic) as follows;

7.6.1.5 Tax Rate - 15% (w.e.f. 01.01.2022 - 18%)

-Page 160 -

Point (iii) of Question No. 14 - Should be amended as follows;

(iii) State the taxable period and the due dates of financial VAT & filing of **FVAT** return.

-Page 161 -

Point (iv) of Answer 14 - Should be amended as follows;

(iv) W.e.f. 01.01.2022 financial VAT rate is 18%.

-Page 161 -

Note of Sub topic No. 7.7.1 - should be amended as follows;

7.7.1 Introduction

Note : Nation Building Tax was abolished with effect from 01.12.2019.

-Page 166 -

Note of Sub topic No. 7.9.1 - should be amended as follows;

7.7.1 Introduction

Note : Economic Service Charge was abolished with effect from 01.01.2020.

-Page 168 -

Exercises

Date should be 21.10.2021

Exercises

Date should be 31.12.2021

Solutions

2. Dates should be 31.01.2022
 - 20.11.2021
 - 20.12.2021
 - 20.01.2022

Updates from the year of assessment 2020/2021

7.10 Share Transaction Levy (STL)

Imposition

Finance Act No. 5 of 2005 was enacted with effect from 01.01.2005 to charge a levy on share transactions taking place in the stock exchange. The levy is charged on the seller on disposal value of the share and on the buyer on the purchase value of the share. As this is purely based on the transaction taking place in the stock exchange, revenue generated fluctuates in accordance with the volume of the share market dealings.

Applicable rates

Period	Rate
From 01 January 2005 to 31 December 2010	0.2% of turnover
From 01 January 2011 to 31 December 2015	0.3% of turnover
01 January 2016 to 31 March 2016	Abolished
From 1st April 2016 to date	0.3% of turnover

Payments and returns

The Share Transaction Levy shall be collected by the relevant stockbroker, stock dealer or custodian bank as the case may be, who is responsible for the settlement of such share transaction.

The Share Transaction Levy collected shall be paid to the stock exchange through which the share transaction took place, at the time of making settlement of such share transaction by the respective stockbroker, stock dealer or custodian bank, as the case may be. The Stock Exchange shall remit the levy so collected to the Commissioner-General of Inland Revenue within three working days from the date of such settlement.

The Stock Exchange shall furnish to the Commissioner-General, a monthly statement giving the total turnover in respect of which the Share Transaction Levy has been remitted to the Commissioner-General within fifteen days from the last day of each month.

Default Levy

Any stockbroker, stock dealer or custodian bank as the case may be, who fails to pay the total amount of the Share Transaction Levy, shall be deemed to be a defaulter, and where such defaulter is a body corporate, the Chairman of the Board of Directors and every Director or principal officer of such body corporate shall be deemed to be a defaulter and such Levy as is not paid on or before the due date shall be deemed to be a Levy in default.

The defaulter shall be liable to pay a surcharge in addition to the Share Transaction Levy in default, calculated-

- (a) at the rate of 10% of the amount of such levy as is in default for the subsequent period of one month or part thereof, from the due date for the payment of the Levy and

-
- (b) at the rate of 2% of the amount of such Levy as is in default for each subsequent period of one month or part thereof, from the due date for the payment specified in above (a),

The Commissioner-General shall take action to recover the Share Transaction Levy or such part of the Levy which is in default for a period of more than three months and the amount of the surcharge accrued thereon.

Recovery of default Tax

- The Commissioner-General shall issue a notice to the defaulter, three weeks prior to the taking of any steps for the recovery informing the defaulter of the intention of the Commissioner-General to institute proceedings for the recovery.
- Where the Commissioner-General issues above Notice of default but the levy and surcharge accrued thereon remains unpaid even though the period of three weeks specified in such Notice has elapsed, the Commissioner-General shall issue to the Magistrate having jurisdiction over the division in which the defaulter resides or is carrying on business, a Certificate containing the name and address of the defaulter and the total sum in default along with a statement to the effect that the person so named has defaulted in making the payment.
- The Magistrate shall on receipt of the Certificate, issue summons on the defaulter requiring him to appear before him on a date to be specified and show cause as to why proceedings should not be taken against him for the recovery of the amount of the Share Transaction Levy or such part of the Levy which is in default and the surcharge accrued thereon. Where the cause shown appears to the Magistrate to be insufficient so as to explain the reason for the non-payment, the Magistrate shall after recording the same, make order for the recovery of the amount of the Share Transaction Levy in default and the amount of the surcharge accrued thereon, from the defaulter as if it were a fine imposed by the Magistrate. The money so recovered shall be remitted to the Commissioner-General, who shall credit the same to the Consolidated Fund.

7.11 Tourism Development Levy (TDL)

In terms of the Part 1 of the Finance Act No 25 of 2003, Tourism Development Levy shall be charged from every institution licensed under the Tourism Development Act, No. 14 of 1968.

Every institution shall apply to the Ceylon Tourist Board and obtain a registration for TDL.

Rate - 1% on the turnover in any year

If any institution having an annual turnover of not exceeding Rs. 12 million or a quarterly turnover not exceeding Rs. 3 Million - 0.5% on the turnover of such institution.

Definition of Turnover

The turnover in relation to –

- a) a tourist hotel, means the amount received or receivable from the total sales excluding the service charges up to 10% of such sales and the value added tax charged on such sales
- b) a travel agent, means the total receipts from services provided in relation to the tourist industry excluding payments made by him in respect of services provided to him by other local service providers and the value added tax charged on such services.

However TDL shall not be charged on the commission carried on the sale of airline tickets from Travel Agent including General Sales Agents licensed under the Tourism Development Act NO 14 of 1968

- c) a tourist shop, means the amount received or receivable from the total sales of products from any such shop excluding the value added tax charged on such sales

The levy shall be remit to the Director General of Ceylon Tourist Board for every quarter before the end of succeeding quarter and quarterly returns shall be submitted. Accordingly, due dates are as follows.

Quarter ended 31st March 2020	- on or before 30th June 2020
Quarter ended 30th June 2020	- on or before 30th September 2020
Quarter ended 30th September 2020	- on or before 31st December 2020
Quarter ended 31st December 2020	- on or before 31st March 2021

Note : *Considering the impact of the Easter Sunday attack and the Covid 19 outbreak a grace period of 10 months has been granted for TDL payments from 1st July 2019 to 30th April 2020, recovering from 20 equal instalments starting from 01st May 2020 ending 31st December 2021, without penalties.*

7.12 Excise Duty chargeable under the Excise (Special Provisions) Act

1. Imposition

As per the provisions of Excise (special provisions) Act, No. 13 of 1989 (the Act), Excise Duty is charged, levied and paid on every excisable article manufactured or produced in Sri Lanka or imported into Sri Lanka at rates specified by the Minister by order published in the gazette.

Every such article in respect of which an Order is made under section 3 of the Act is referred to as "an excisable article".

The rate or rates of excise duty levied in respect of articles will be determined by reference to the class or description of articles.

2. Registration

All applications for registration should be made to the Director of Excise with the prescribed fee. Director of Excise shall issue to every person registered under Excise Duty (Special Provisions) Act, No. 13 of 1989 as amended, a certificate of registration in the prescribed form and assigning a registration number to every such person.

Unless the registration is obtained from the Director of Excise, no person should engage in manufacture, wholesale purchase and sale, storing of goods for the purpose of wholesale trade or import goods, after expiry of two months from the date on which an article becomes a prescribed excisable article consequent to the order made by the minister.

3. Notification of Removal

(1) Where the manufacturer of any excisable article intends to remove or to cause the removal of any quantity of such excisable articles from the factory or other place at which such excisable articles were produced or manufactured, he shall give at least 48t hours notice of that fact to the Director-General or an excise officer designated by the Director-General for that purpose.

(2) Where the importer of any excisable articles intends to remove or to cause the removal of, any quantity of such excisable articles from the Customs warehouse or such other place as is authorized by the Director-General of Customs, at which such excisable articles were stored after their import, he shall give at least 48 hours notice of that fact to the Director-General or an excise officer designated by the Director-General for that purpose.

4. Value of Excisable Articles

Excise Duty is levied on excisable article (other than imports) based on its value. The value for such goods would be:

- The normal sale price at which an excisable article is sold at the time such articles are removed from the place of manufacture, and in the course of wholesale trade, where the buyer is not a related person.

-
- The nearest ascertainable sale price when the normal price is not ascertainable as the goods are not sold or for another reason.

5. Power to estimate the sale price

If a manufacturer, producer or importer sells any excisable article at a price below the open market price, which causes him to reduce the amount of excise duty payable by him, then the Director of Excise has the power to re compute tax as if the article was sold at the open market value.

6. Value for Imports

The value of any imported article, for the purpose of calculating excise duty will be the sum of the following:

- (i) Cost, insurance and freight value of the article.
- (ii) 10% of cost, insurance and freight value of the article as above, for bank and other charges.
- (iii) An amount equal to the total of customs duty, cesses and ports and airport development levy on import of that article.

7. Payment of Excise Duty

Where an excisable article has been produced or manufactured in Sri Lanka, duty should be paid by the producer or manufacturer of that excisable article, after its removal from the factory or in any other place that such excisable article was produced, within one calendar month from the last date of each quarter in the year in which the removal of goods takes place.

Where an excisable article has been imported into Sri Lanka, duty should be paid by the importer of such excisable article after its removal from the Customs warehouse or any other place such excisable article was stored, immediately after its importation into Sri Lanka, within one calendar month from the last date of each quarter in the year in which such import takes place.

08. Proceeding for Recovery before Magistrate

Where the payment of any excise duty is in default, the Director General may take recovery action through magistrate courts.

CORPORATE AND PERSONAL TAXATION

SUBJECT NO: 304

**UPDATES FOR THE
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