



INLAND REVENUE DEPARTMENT

Notice to the Taxpayers

Clarifications on Transfer Pricing Information in Relation to the Return of Income Year of Assessment 2019/2020

Applicability of Transfer Pricing regulations due to the implementation of newly proposed changes of concessionary tax rates and / or tax exemptions.

According to the Regulation 1 of the TP Gazette, transfer pricing regulations inter alia, are applicable to the local transactions made between associated enterprises (AE) as referred to in section 77 of the Inland Revenue Act No 24 of 2017 (IRA) provided one of such AE had been granted any tax exemptions or subject to different tax rates.

Certain tax exemptions and concessionary tax rates were introduced by the Government effective from either 01.04.2019 or 01.01.2020.

Hence, if any such AE becomes entitled to such exemption or concessionary tax rates as the case may be, requirement to submit the transfer pricing documentations (Local file and Transfer Pricing Disclosure Form) would arise if the controlled transactions made with AE which is entitled to the aforesaid exemptions and / or concessionary tax rates, exceed LKR 200 million.

Example: Company A and B are resident AE taxable at the rate of 28%. However, company B is a construction service provider and became entitled to concessionary tax rate of 14 % with effect from 01.01.2020.

Scenario 1: Aggregate value of transactions between companies A and B during the year of assessment 2019/2020 was LKR 300 million but for the period from 01.01.2020 to 31.03.2020, the controlled transaction was LKR 125 Million.

Requirement of the scenario 1: In this case, companies A and B are not required to comply with TP regulations as the controlled transactions are less than threshold of LKR 200 million.

Scenario 2: Aggregate value of transactions between companies A and B during the year of assessment 2019/2020 was LKR 300 million but for the period from 01.01.2020 to 31.03.2020, the controlled transactions were LKR 225 Million.

Requirement of the scenario 2: In this case, company A and B are required to comply with TP regulations for the whole year as the controlled transactions exceed the threshold of LKR 200 million.

How to fill the schedule 9B (under the transfer pricing details) of the Return of Income.

1. Aggregate value of loans and value of funds transfers with associated enterprises

Taxpayers may fill such cages based on the information available in relevant notes to the financial statements regarding the related party transactions.

2. Applicable transfer pricing disclosure form

Any enterprise that carrying out aggregate controlled transactions exceeding LKR 200 million with associated enterprises during the year of assessment 2019/2020 is required to file the TPDF along with the return of income. Such enterprises are required to put a (√) in both “YES” cages under Return Schedules 1 and 2. Others are required to put a (√) in both “NO” cages under Return Schedule 1 and 2.

Please note that any previous guidelines published in respect of the corporate return of income tax for year of assessment 2019/2020, consist of any subject matter which is contrary to any subject matter referred to in this notice, such instructions of the relevant guidelines should be disregarded (instructions on Schedule 9B only) and this notice should be considered for reference.

Commissioner General of Inland Revenue

