



INLAND REVENUE DEPARTMENT

Notice to Taxpayers

Changes to the Inland Revenue Act, No. 24 of 2017 as passed in Parliament on December 09, 2022

Changes proposed to the Inland Revenue Act, No. 24 of 2017 (IRA) by the Inland Revenue Bill with Committee Stage Amendments approved by Parliament on 09.12.2022 which are yet to be certified by Hon. Speaker. The changes are effective from **January 01, 2023**, unless otherwise stated. **Significant changes** approved are set out below.

1. Deduction of Withholding Tax (WHT), Advance Income Tax (AIT) and Advance Personal Income Tax (APIT)

Deduction of WHT, AIT and APIT has been made mandatory with effect from **January 01, 2023**.

1.1 WHT/AIT on Certain Payments

In terms of Section 84A and 85 of the IRA as amended, with effect from January 1, 2023, a person **shall deduct** WHT/AIT on following payments which has a **source in Sri Lanka** except the exempt amounts, at the relevant rates.

Payment	Relevant WHT Rate (%)
Service fee payments exceeds Rs. 100,000 per calendar month to a resident individual who is not an employee of the payer with respect to following - (a) for teaching, lecturing, examining, invigilating or supervising an examination; (b) as a commission or brokerage to a resident insurance, sales or canvassing agent; or (c) for services provided by such individual in the capacity of independent service provider such as doctor, engineer, accountant, lawyer, software developer, researcher, academic or any individual service provider as may be prescribed by regulation	5% on full payment
Interest or discount paid	5%
Rent payments to a resident person (if aggregate amount exceeds Rs. 100,000 per calendar month)	10% on full payment
Charge, natural resource payment or premium	14%
Royalty	14%
Dividend	15%

1.2 APIT on Remuneration

In terms of Section 83A(1A) of the IRA as amended, with effect from January 1, 2023, an employer **shall deduct** Advance Personal Income Tax on any payment which falls under section 5 made to his employee, as specified by the Commissioner General.

2. Changes in Reliefs – Individuals

Type of Relief	Year of Assessment (Y/A)		
	First nine-month period of the Y/A 2022/2023 01.04.2022 - 31.12.2022	Balance three-month period of the Y/A 2022/2023 01.01.2023 – 31.03.2023	Y/A 2023/2024 & onwards 01.04.2023
Personal Relief for Residents or Citizens	Rs. 2,250,000	Rs. 300,000	Rs.1,200,000
Expenditure Relief for Residents	Rs. 900,000	Not applicable	Not Applicable

3. Calculation of Income Tax Payable to the Y/A 2022/2023

Income tax payable for the Y/A shall be calculated separately for two periods on the actual basis, but for following cases proportionate basis could also be applied.

- Individuals,
May apportion the **business income** to arrive the taxable income on the pro-rata basis at 75:25 to the periods of nine month and three month respectively.
- Other than individuals,
May apportion the **business income** to arrive the taxable income on the pro-rata basis at 50:50 to the periods of first six month and second six month respectively.

4. Final Withholding Payments

Dividend declared by a resident company, on after January 1, 2023 shall be a final withholding payment

5. Income Tax Rates Applicable to Individuals (Residents and Non-residents)

Income Tax Rate		
First nine- month period of the Y/A 2022/23 01.04.2022 - 31.12.2022	Balance three-month period of the Y/A 2022/23 01.01.2023 – 31.03.2023	For the Y/A 2023/2024 & onwards 01.04.2023
First Rs. 2,250,000 - 6%	First Rs. 125,000 - 6%	First Rs. 500,000 - 6%
Next Rs. 2,250,000 - 12%	Next Rs. 125,000 - 12%	Next Rs. 500,000 - 12%
Balance - 18%	Next Rs. 125,000 - 18%	Next Rs. 500,000 - 18%
	Next Rs. 125,000 - 24%	Next Rs. 500,000 - 24%
	Next Rs. 125,000 - 30%	Next Rs. 500,000 - 30%
	Balance - 36%	Balance - 36%

6. Income Tax Rates Applicable to persons other than Individuals with effect from 01.10.2022

Type of Persons	Tax Rate
Trust	30%
Companies	30% (including gains from realization of investment assets)
Unit Trust and Mutual Fund	30%
Non-Governmental Organization (including on amounts received by way of grant, donation or contribution or in any other manner under section 68 of the IRA)	30%

7. New Exemptions

A gain from the realization of a capital asset or liability of the business or an investment asset made by an entity fully owned by the Government of Sri Lanka if such gain was made due to a decision by the Government of Sri Lanka as being essential for the economic development of Sri Lanka and subject to prior written approval of the Minister.

8. Removal of Exemptions from 01.10.2022

- i. A gain made by a person 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
- ii. Dividends paid by a resident company to a member who is a non-resident person
- iii. Dividends and gains on the realization of units or amounts derived as gains from the realization of capital assets of a business or investment by a unit holder from Real Estate Investment Trust.

9. Removal of Exemptions from 01.04.2023

9.1 Gains and profits earned or derived by any person from-

- i. Providing information technology and enabled services
- ii. Any Vocational Education Programmes of any Vocational Institution.
- iii. Any business of export of gold, gem or jewelry or from the business of cutting and polishing of gems which are brought to Sri Lanka and exported after such cutting and polishing.
- iv. A new undertaking for sale of recycled construction materials commenced on or after 01.04.2021
- v. An undertaking for the purpose of manufacturing of boats and ships (by a resident Person) in Sri Lanka commenced on or after 01.04.2021.
- vi. Any renewable energy established with a capacity to produce not less than one hundred Mega Watts of solar or wind power and supplied such power to the national grid commenced on or after 01.04.2021.
- vii. From an undertaking (by any resident person) to construct and install of communication towers and related appliances using local labour and local raw materials in Sri Lanka or to provide required technical services for such construction or installation commenced on or after 01.01.2021
- viii. Undertaking for letting bonded warehouses or warehouses related to offshore business in the Colombo and Hambantota Ports commenced on or after 01.04.2021.

9.2 Gains and profits earned or derived by any Individual

From any business commenced on or after 01.04.2021 upon successful completion of vocational education.

10. Changes to the Deduction Rules of the IRA

- i. Additional 100% deduction of Marketing and Communication Expenditure (granted subject to the provisions of the IRA) is not available for the year of assessment 2023/2024
- ii. Improvement expenditure incurred on depreciable assets which are having zero written down value (fully capital allowance granted depreciable assets) could be deducted as follows.

Depreciable Asset	Basis
Buildings, structures and similar works of a permanent nature.	Over 12 years in equal amounts
Other depreciable assets	Over 3 years in equal amounts

11. Removal of Concessionary Tax Rates

11.1 Concessionary rates applied on gains and profits of following entities have been removed with effect from 01.10.2022.

- i. Small and Medium Enterprise (SME)
- ii. Business of export of goods
- iii. Specified undertaking
- iv. Providing educational services
- v. promotion of tourism
- vi. Agro processing
- vii. Construction
- viii. Health care services
- ix. Export company registered with BOI, from supply of health protective equipment for various government entities
- x. Gains and profits of company which listed its shares in the Colombo Stock Exchange during from January, 1 2021, to December 31, 2021,
- xi. Consideration received in respect of gems and jewellery
- xii. Gains and profits from the supply of electricity to national grid generated using renewable energy resources
- xiii. Manufacturing

11.2 Concessionary rates applied on gains and profits of Individuals have been removed with effect from 01.01.2023.

- i. Consideration received in respect of gems and jewellery
- ii. Supply of electricity to the national grid generated from renewable energy resources.

Commissioner General of Inland Revenue



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