



# **INLAND REVENUE DEPARTMENT**

## **Notice to Taxpayers**

### **Amendments to the Inland Revenue Act, No. 24 of 2017**

Inland Revenue (Amendment) Act, No. 04 of 2023 has been certified on 08.05.2023 and important changes made from such amendment Act to the Inland Revenue Act, No. 24 of 2017 (IRA) are as follows.

#### **1. Provisions Introduced to the IRA, Discouraging Cash Transactions and Encouraging Bank and Card Transactions - Section 10 (2A) of the IRA**

(a) No deduction shall be allowed to a person in computing his income, and amounts incurred by him shall not be considered as cost of an asset (So that, amounts incurred and deductible as “cost of an asset” for the calculation of gains from the realization of capital assets or investment assets or for the purposes of allowance for trading stock, capital allowances and balancing allowances and for other purposes of the IRA shall also be disregarded), where such person pays those amounts to another person exceeding Rs 500,000 in a day, or in respect of a single transaction, or in respect of a series of single transactions relating to one event, otherwise than by way of an account payee cheque or account payee bank draft or by the use of a credit card, debit card or electronic payment system through a bank account.

(b) This provision is effective from the 08<sup>th</sup> Day of May, 2023.

(c) “Single Transaction” means the purchase or procurement of any goods or services, on a single invoice, receipt or statement and “bank account” means any account maintained in a bank or financial institution in Sri Lanka

(d) These restrictions are not applicable for –

- Sri Lanka Government (Departments, Ministries, Local Authorities)
- Any undertaking of the Government of Sri Lanka
- Public corporations
- Banks
- Financial institutions (as defined in Section 195 of the IRA)
- Classes of persons and payments prescribed by the Finance Minister

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## **2. Withholding Tax Related Changes**

(a) The Commissioner General shall have power to specify the procedure of withholding tax from any payment made to a non-resident person (foreign outward remittances) with effect from 08.05.2023. In addition to the relevant withholding agent who is making the payment to a non-resident person, financial institution (relevant licensed commercial bank or authorized dealer who engaged for such payment of outward remittances) shall also be complied with such procedure. Failure to comply with such procedure by the financial institution shall result into a penalty not exceeding Rs. 50,000/-.

(b) Sri Lanka Government shall be considered as a “person” and accordingly, shall become a withholding agent for the purpose of deducting withholding tax from payments to non-resident persons other than a payment derived through a Sri Lankan permanent establishment.

(c) Withholding agents who have deducted Advance Income Tax under the provisions of Section 84A shall file three quarterly statements, in addition to the annual statement which shall be filed 30 days after the end of the year of assessment (April 30<sup>th</sup>). Such quarterly statements shall be filed within thirty days after the end of each three months period ending on the thirtieth day of June and September and thirty first day of December as specified by the Commissioner General.

## **3. Source of Payment Received in Respect of Employment**

In addition to the existing source rules in Section 73 of the IRA for payments in respect of Employment, a new source rule has been introduced and accordingly, payments received in respect of employment shall have a source in Sri Lanka to the extent such payment is derived from a company resident and conducting the business in Sri Lanka.

## **4. Tax Returns**

Filing of tax returns through the e-service platform (e-filing) is mandatory for all taxpayers from the year of assessment commencing on April 1, 2023 (2023/2024). However, the Commissioner-General may authorize to furnish manual tax returns based on the just and equitable reasons of taxpayers.

## **5. Information**

Following institutions and persons shall provide information including financial transaction information or shall provide access for records under them on a regular basis in electronic format, as may be prescribed, to the Commissioner-General.

- Registrar-General of the Registrar General’s Department;
- Registrar-General of Companies;
- Commissioner-General of Motor Traffic;

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- Officer of any other Government institution in charge of granting contracts for the supply of goods, works, or consulting and non-consulting services;
  - Financial institutions;
  - Stock exchange; or
  - Any other person or a Government institution as may be prescribed by regulations

## **6. Assessments**

The Assistant Commissioner may **further amend** the original assessment (after the amended assessment) within the time bar period (30 months) specified in paragraph (b) of subsection (2) of Section 135 of the IRA or within one year time from the amended assessment. However, one year time from the amended assessment is available only for alterations or additions **made in the amended assessment** to the original assessment.

## **7. Administrative Review**

The Commissioner-General shall notify his decision in writing or in electronic means for any request for administration review within 2 years period of the receipt of such request. If not, request shall be deemed to be accepted unless the taxpayer appeal to the Tax Appeals Commission after seven months since the request for administrative review was made. This amendment is applicable for all requests made on or after 08<sup>th</sup> May 2023.

## **8. Opinion of the Secretary to the Treasury**

The Commissioner-General may, obtain an opinion or observation of the Secretary to the Treasury on the underlying tax policy relating to any tax provision, for the purpose of interpretation of such tax provision.

## **9. Information for Tax Policy Decisions**

Notwithstanding the secrecy provisions of the IRA (Section 100), Commissioner General may disclose information to the Director General of the Fiscal Policy Department, for the purpose of making decisions on the tax policy and Government Revenue

## **10. Changes for Income Tax Refunds Procedure**

(a) A taxpayer could request to set off 60% of the refundable amount against the subsequent income tax payable by him, prior to a tax audit (by a tax official) of such refund claim.

(b) Resident individuals are entitled to receive their refund claims less than Rs. 100,000 within 3 months of the claim, prior to a tax audit by a tax official. Further, if such individual is a senior citizen (as defined in Section 195 of the IRA), then, he is entitle for refund claims in every 3 months (ended on June 30<sup>th</sup>, September 30<sup>th</sup>,

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December 31<sup>st</sup> and March 31<sup>st</sup> ) period where his claim is less than Rs. 25,000 subject to same conditions. The manner and procedure on these refunds will be published by the Commissioner-General in due course.

### **11.Changes in relation to the Taxation of Dividends**

(a) Dividend paid by a resident company to a member who is a non-resident person during the period from October 1, 2022 to December 31, 2022, is exempt from Income Tax.

(b) Applicable income tax rate for gains and profits from dividend (if part of taxable income) received or derived by residents (whether individuals or any entity) during the second six months period of the Year of Assessment 2022/2023 is 15%.

(c) Dividend paid by a resident company to a member to the extent that such dividend payment is attributable to, or derived from, another dividend received by that resident company or another resident company, is exempt from Income Tax, with effect from October 1, 2022.

### **12. Income Tax Rate for BOI Companies (Agreements entered between 01.04.2018 to 30.09.2022)**

If- (a) an enterprise has entered into an agreement with the Board of Investment of Sri Lanka under section 17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978 on or after April 1, 2018 but prior to October 1, 2022; and

(b) such agreement provides for the profits and income of that enterprise or any dividend paid by that enterprise to be fully or partly exempt from income tax or to be taxed at a reduced rate of income tax,

such profit and income of such enterprise or such dividend paid by such enterprise shall continue to be exempt from income tax payable, or shall be liable for income tax at the rate provided for in such agreement, as the case may be.

### **13.Income Tax Exemptions**

(a) Amounts derived by a non-resident person from engaging in a project of the Government of Sri Lanka, if such project is approved by the Minister taking into consideration the economic benefits to the country, and is totally funded from foreign grants.

(b) Gains and profits received or derived by an authorised person carrying on a Business of Strategic Importance as approved under the provisions of the Colombo Port City Economic Commission Act, No. 11 of 2021 and the employment income of an employee employed in terms of section 35 of that Act, up to the extent provided for in that Act for each year of assessment.

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(c) Gain made by an entity of which more than fifty percent of direct or indirect membership interest owned by the Government of Sri Lanka as a gain from the realization of a capital asset or liability of the business or realization of an investment asset, if such gain was made due to any decision by the Government of Sri Lanka as being essential for the economic development of Sri Lanka and subject to the prior written approval of the Minister.

#### **14. Investment Incentives**

(a) A person who has entered into an agreement with the Board of Investment of Sri Lanka and **invests in the expansion of his existing undertaking**, during any year of assessment shall be granted enhanced capital allowances in relevant percentage subject to relevant Subparagraph of Paragraph 1 of the Second Schedule to the IRA.

(b) For the purpose of Paragraph 1 of the Second Schedule to the IRA,

“existing undertaking” is any undertaking conducted by a person, prior to the first date of investment on depreciable assets;

“expansion” shall not include transfer, purchase or exchange of depreciable asset of an existing undertakings of a person or an associate of a person, or the purchase of depreciable asset to replace an existing depreciable asset of an undertaking of a person;

#### **15. Relief for Interest or Penalty on Gains from Realization of Investment Assets by a Company**

If any company who has not paid income tax due on gains from realization of investment assets at 30% for the period from 01.10. 2022 to 19.12.2022, but pays the due amount of tax payable by such company (at 30%), on or before 30.06.2023, such company shall not be liable to any penalty or interest in terms of the provisions of the IRA.

#### **Commissioner General of Inland Revenue**

