

## **Circular to Banks / Financial Institutions**

### **Withholding tax on interest paid by Banks or other Financial Institutions**

(Section 133 of the Inland Revenue Act No. 10 of 2006 as being amended)

This Circular sets out explanatory notes and guidelines to every Bank and other Financial Institution, to facilitate the application of provisions of Section 133 of the above Act, being amended [as proposed in the Budget 2015, passed by Parliament] with effect from April 1, 2015, for the **deduction of income tax from interest** payable on any sum of money deposited with; or paid to such Bank or Financial Institution, by **any individual, partnership, company or body of persons**.

#### **1. Time of Deduction**

Tax should be deducted at the time the **interest** is paid, or credited to any account maintained in a Bank or Financial Institution for or on behalf of the depositor. However, in the case of a Certificate of Deposit issued pledging that a higher sum of money is paid to the bearer ( not identified by name), the tax deduction should be made from the excess over the amount paid to the bank or financial institution by the depositor, at the time such deposit is made (i.e. upfront deduction).

#### **2. Exemptions (from tax deduction)**

The tax deduction requirement under aforesaid provisions is not applicable to the following interests.

(I) Any interest which is exempt from income tax under any provision of the Inland Revenue Act.

#### **Such exemption includes, in particular:**

- (a) the interest accruing for, or arising in, for the period commencing on January 1, 2015 and ending on March 31, 2015, or for any year of assessment commencing on or after April 1 2015, to any individual who is a citizen of Sri Lanka and resident in Sri Lanka and who is sixty years or above during the period commencing from January 1, 2015 and ending on March 31, 2015 or who is more than fifty nine years old on the first day of the year of assessment commencing on or after April 1, 2015, from any deposit maintained in any bank or financial institution authorized by the Central Bank of Sri Lanka to accept deposits from the general public;
- (b) the interest accruing for, or arising in, for any year of assessment commencing on or after April 1, 2015, to any individual or charitable institution who or which maintains one savings account or more than one savings account, where the interest paid for a month is less than five thousand rupees:

For the purpose of this paragraph, “Savings Account” means an account, whether or not subject to any condition affecting the right to withdraw money there from and which bears interest at a rate not dependent on the period for which the deposit is maintained;

(c) the interest accruing to any person on moneys lying to his credit in foreign currency, in any account opened by him or on his behalf, in any commercial bank or specialized bank with the approval of the Central Bank of Sri Lanka ;(**NRFC or RFC Accounts**)

(d) the interest accruing to any person from moneys lying to his credit in a special account in a commercial bank with the approval of the Central Bank of Sri Lanka of sums obtained by him by the exchange of foreign currency held by him outside Sri Lanka;(**Special Accounts**)

(e) the interest accruing in any year of assessment to any charitable institution, where it is proved to the satisfaction of the Commissioner General in relation to that year of assessment that such interest is applied solely for the purposes of providing care for the children, the elderly or disabled in a home maintained by such charitable institution;

**(The bank or financial institution is required to seek confirmation from the Department that such institution is qualified for this exemption)**

(f) the interest accruing to any person from moneys lying to his credit in foreign currency with any foreign currency banking unit (FCBU)

(g) the interest accruing to any person from any money deposited in any Securities Investment Account

(II) Any interest payable to :

(a) The Consolidated Fund of the Government of Sri Lanka or any Provincial Fund of a Provincial Council; or

(b) Any institute referred to in paragraph (a), (c) (d), (g), (h), or (i) of section 7 of the Inland Revenue Act.

(III) Any interest from which tax is required to be deducted under section 37 (**specific long term accounts**) or section 95 (**interest payable to persons outside Sri Lanka other than such interest is payable to an individuals**) of the Inland Revenue Act.

### **3. Rates of Tax Deduction:**

Every Bank or Financial Institution paying interest or allowing any sum referred to as “excess” over the original payment (in the case of any certificate of deposit) is required to deduct income tax from such interest or excess (unless it is exempt) as follows:

(i) If any interest is paid or credited to a company [other than any charitable institution], the applicable rate of tax deduction on such interest is 10%;

(ii) Any excess allowed on the value of any certificate of deposit (as referred to in paragraph 1), the applicable rate of tax deduction on such excess is 10%;

- (iii) If any interest is paid or credited to a body of person [other than any charitable institution], the applicable rate of tax deduction is 8%;
- (iv) If any interest is paid or credited to an individual (including individuals out of Sri Lanka to whom the provisions under section 95 are applicable), to any charitable institution other than an individual or charitable institution mentioned in item (a) and (b) of paragraph 2 of this guideline or to any partnership, a single withholding tax rate of 2.5% is to be applied irrespective of the amount of interest paid or credited.

**Note:**

- (a) As a single withholding tax rate of 2.5 % has been introduced on interest paid or credited to individuals or to charitable institutions as mentioned above, **the requirement of furnishing a declaration by such individuals or charitable institutions to banks or financial institutions by which the interest is paid or credited , does not arise.**
- (b) If a direction has been issued by the Commissioner General of Inland Revenue or any officer authorized by such Commissioner General (as referred to in paragraph 6), the deduction should be made in accordance with such direction, and such directions issued by the Commissioner General should be kept in safe custody and be made available to any officer authorized by the Commissioner General for inspection (if required).

**4. Joint Account**

Interest on joint accounts of individuals may be apportioned among such individuals according to the mandate given to the Bank or Financial Institution and such part of interest apportioned to each such individual can be treated as interest payable to such individual.

**5. Certificate of Tax Deduction**

Every Bank or Financial Institution deducting income tax according to paragraph 3 is required to issue in respect of each deduction, a certificate of tax deduction to every depositor (individual, partnership, company or body of person), in the following format;

<b>Certificate of Tax Deduction</b>	
Name and address of the Bank/Financial Institution .....	
Name & Address of the Depositor.....	
Year of Assessment.....	
(a) Gross amount of the interest .....	
(b) i. Rate of tax .....	
ii Amount of tax deducted .....	
.....	.....
Name of Authorized Officer	Signature of the Authorized Officer
.....	Date: .....

Note: If a tax deduction is **duly made** from the interest on any deposit of any person other than a Company, taxation of such interest will be final.

## 6. Direction

If the recipient of interest has reasons to believe that income tax payable/computed by such recipient for any year of assessment, as if the tax deductible interest formed part of such recipient's assessable income, is less than the income tax deductible by the Bank or Financial Institution from the interest for that year of assessment, such a recipient may request the Commissioner General [on direction application form obtainable from the Commissioner (withholding tax on interest)] that the Bank or Financial Institution be directed to adjust, as so directed, the deduction requirement.

The Bank or Financial Institution should honor any such direction issued by or under the authority of the Commissioner General, and make adjustments accordingly.

## 7. Records to be maintained by the Bank and other Financial Institution and their other obligations

Every bank and financial institution is required to –

- Keep a proper record of the interest of excess, as the case may be, paid by it in any year of assessment to any person or partnership and the date or dates on which such interest or excess is paid, in the following manner.

Year of Assessment: - .....

(a)

(1) S. No	(2) Name & Address	(3) Account No.	(4) Deposit Amount	(5) Type of Deposit	(6) Interest/Excess	(7) Tax Rate	(8) Tax Deducted

- (b) Keep a record of interest on which no withholding tax has been deducted due to exemption from deductions as mentioned in paragraph 2 of this guideline in the following manner.

Year of Assessment .....

1	2	3	4	5	6	7
Serial No.	Type of deposit	Branch code	Name of the recipient of the Interest	NIC No./TIN	Amount of Interest paid	Reason for exemption
Total						

- Permit officers of the Department authorized (in writing) by the Commissioner General to inspect the above records.

## 8. Submission of Returns and Schedules

### Return

Commencing on or after April 1, 2015, duly prepared **quarterly returns** which are issued by WHT Unit, upon the **monthly** payment of the relevant tax to the People's Bank account No.204-1-001-8-0085128 through the paying –in-slip issued by the said unit, should be furnished to the WHT (on interest) Unit on or before 15th day of the month immediately succeeding the end of the relevant quarter with the 3<sup>rd</sup> copy of the relevant paying-in-slip.

Please note that photostat copies of the return issued by the WHT (on interest) of the Department of Inland Revenue will not be entertained. Further return should be furnished even in the instances where no any tax is payable.

### Schedules

Please note that with effect from 01/04/2015, the following schedules should be submitted on withholding tax deducted on interest paid or credited or discount allowed under section 133,134 or 135 or on any annuity, royalty, management fees referred in section 160 , or on any reward , share of fine, lottery winnings, betting or gaming referred to in section 157 or withholding tax deducted under section 36,37,38,39,95 and 161A of the Inland Revenue Act, if applicable, as per the formats given below.

### Schedule 1

#### WITHHOLDING TAX ON GOVERNMENT SECURITIES

1	2	3	4	5
Serial No	Type of Gov. Securities	Name of Financial Institutions	WHT Amount (Rs)	Deducted Date
TOTAL			A=	

- This schedule is required to be submitted only by the Central Bank.

## Schedule 2

### WITHHOLDING TAX FROM DEPOSITS AND CORPORATE DEBT SECURITY

WITHHOLDING TAX FROM INDIVIDUALS ,PARTNERSHIPS AND CHARITABLE INSTITUTIONS  
WITHHOLDING TAX FROM COMPANIES AND INSTITUTIONS (OTHER THAN COMPANY)  
WITHHOLDING TAX ON CORPORATE DEBT SECURITIES

1	2	3	4	5	6	7	8	9	10	11	12	13	14
Se. No	Type of Deposit/Security	Name	Address	TIN	Account No/ Debt Security No	Branch Code	Date of Commencement of Deposit/ Debt Security (DD/MM/YY)	Date of Maturity (DD/MM/YY)	Amount of Deposit/ Value (Rs)	Interest Rate (%)	Interest paid/ payable (Rs)	Rate of WHT (%)	WHT (Rs)
													C2+D2=

- WHT on Deposits and Corporate Debt Securities from individuals, partnerships, charitable institutions, companies and all other institutions should be declared in this schedule.

## Schedule 3

### WITHHOLDING TAX UNDER SPECIAL PROVISIONS

WITHHOLDING TAX FROM PERSONS OUTSIDE SRI LANKA (Section 95)  
WITHHOLDING TAX ON ANNUITY/ ROYALTY / MANAGEMENT FEE(Section 160)  
WITHHOLDING TAX DEDUCTION UNDER SPECIAL PROVISIONS(Sections-36,37,38,39,161A) & OTHERS  
WITHHOLDING TAX ON REWARDS/ SHARE OF FINE/ LOTTERY PRIZE/ BETTING & GAMBLING(Section 157)

1	2	3	4	5	6	7	8	9
Serial No	Type/ Description/ Section	Name	Address	NIC No / TIN No/ Passport No	Date of payment/ Event/Auction (DD/MM/YY)	Value (Rs)	Rate of WHT (%)	WHT (Rs)
Sub Total						E1=		E2=

- WHT deducted under section 36,37,38,39, 95, 157,160 and 161A of Inland Revenue Act should be declared in this schedule.

## Schedule 4

### DETAILS OF WITHHOLDING TAX EXEMPTIONS

(1)	2	3	4	5	6	7
Serial No.	Type of deposit	Branch code	Name of the recipient of the Interest	NIC No./TIN	Amount of Interest paid	Reason for exemption
Total						

Every bank or financial institution is required to furnish a return including schedules to the Commissioner-General on a quarterly basis, containing particulars specified by the Commissioner-General in relation to interest payments and other tax deductions, and those are to be furnished on or before the following due dates.

1<sup>st</sup> quarter (April, May, June) – on or before 15<sup>th</sup> of July

2<sup>nd</sup> quarter (July, August, September) - on or before 15<sup>th</sup> of October

3<sup>rd</sup> quarter (October, November, December) - on or before 15<sup>th</sup> of January

4<sup>th</sup> quarter (January, February, March) - on or before 15<sup>th</sup> of April

**Note- The schedules are required to be furnished in electronic form. However, if numbers of tax payers are less than 10, hard copies may be submitted.**

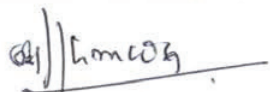
Further there is no requirement in sending schedules in respect of:

- deposits of individuals on which WHT is deducted; and
- savings accounts on which WHT not deducted.

unless requested for specific purpose.

## 9. Registration Requirement

As provided for in section 150 of the Inland Revenue Act, Bank or Financial Institution is required to obtain a registration number from the Commissioner (Withholding Tax on Interest) – an officer authorized by the Commissioner General – 30 days prior to commencement of deduction of tax and to furnish a return.



**Kalyani Dahanayake**  
**Commissioner General of Inland Revenue**

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