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உள்ளாட்டு இறைவரித் திணைக்களம்
DEPARTMENT OF INLAND REVENUE

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14 வது மாடி

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14th Floor

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තැ.පෙ. 515, කොළඹ 2- ශ්‍රී ලංකාව

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Circular to Banks / Financial Institutions

Withholding Tax on Interest paid by Banks or other Financial Institutions

This Circular sets out explanatory notes and guidelines to any Bank or Financial Institution as instructed by the Ministry of Finance, (subject to formal amendments to the Inland Revenue Act, No. 24 of 2017, to be passed in Parliament) in addition to the Circular No. SEC/2018/01 dated 16.03.2018 (hereinafter referred to as “2018 Circular”), to facilitate the application of section 84 of the Inland Revenue Act.

This Circular is effective for the period from January 01, 2020 to March 31, 2020 and the 2018 Circular must be read with the changes set out here.

1. Circumstances for non-deduction of withholding tax

- (I) The tax deduction required under the provisions of section 84 of the Act, is not applicable to the following type of interest or discount.
- Interest paid to a financial institution on the ordinary loans and advances provided by such institution;
 - Interest or discount paid to any person on a Security or a Treasury Bond under the Registered Stocks and Securities Ordinance (Chapter 420) or a Treasury Bill under the Local Treasury Bills Ordinance (Chapter 417);
 - An amount equal to the interest or the discount paid or allowed (as the case may be) to any non-resident person or to any licensed commercial bank in Sri Lanka, by the issuer of any sovereign bond denominated in foreign currency, issued on or after October 21, 2008, by or on behalf of the Government of Sri Lanka;
 - Aggregate of interest income from all deposits of a senior citizen (resident in Sri Lanka who is sixty years or above at any time during the year of assessment) up to the tax relief available under Paragraph 2(d) of the FIFTH SCHEDULE to the

Inland Revenue Act, **until December 31, 2019** [subject to the declaration made under 2018 Circular by such senior citizen whose aggregate interest income is not more than Rs. 1,500,000 per annum].

- (e) 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 (Subject to the letter issued by the Department of Inland Revenue, confirming such institution is qualified for this exemption).
- (f) Aggregate interest income or discount from all the accounts including Islamic financial transaction maintained in **a bank or a financial institution, to an account holder** (including senior citizens) up to Rs. 250,000/- per month, **for the period from January 01, 2020 to March 31, 2020.**

(II) Any interest payable to:

- (a) the Government of Sri Lanka or a Local Authority including any government department;
- (b) the Central Bank of Sri Lanka including Monetary Board;
- (c) any university established under any university Act in Sri Lanka;
- (d) Government assisted any private school registered with the Ministry of Education and mandated to follow the Government circulars;
- (e) Co-operative Societies registered under Co-operative Societies Law, No. 5 of 1972;
- (f) a foreign Government which falls under a diplomatic immunities law;
- (g) any international organization which falls under a diplomatic immunities law or similar law or exemption provided under an agreement entered into with Government of Sri Lanka;
- (h) an individual entitled to privileges to the extent for by-
 - (i) a diplomatic immunities law or a similar law;
 - (ii) an act giving effect to the Convention on the Privileges and Immunities of the United Nations or specialized Agents of the United Nations;

is not liable for the deduction of withholding tax.

2. Rate of Deduction

Every Bank or Financial Institution paying interest including any sum referred to as “excess” over the original payment (in the case of any certificate of deposit), discount or profit from Islamic financial transaction is required to withhold income tax from such payment (unless it is exempt) as follows:

- (i) for the period from April 01, 2019 to December 31, 2019, in the case of interest or discount or income from Islamic financial transaction **paid to any person** (other than to a senior citizen), is required to withhold at the rate of 5%.
- (ii) in the case of a senior citizen, tax relief available under Paragraph 2(d) of the FIFTH SCHEDULE to the Inland Revenue Act will be continued until 31.12.2019. If the interest income exceeds such relief, on the excess over the relief amount, be withheld at the rate of 5%.
- (iii) **for the period from January 01, 2020 to March 31, 2020**, in the case of interest or discount including income from Islamic financial transaction **paid to any person (including a senior citizen)**, if the aggregate interest income from all the accounts maintained in a bank or a financial institution by an account holder exceeds Rs. 250,000 per month, withholding tax shall be deducted at the rate of 5% on the amount in excess over Rs. 250,000/-.

Further, as per the instructions, **the interest or discount including income from Islamic financial transaction, paid to any person shall not be subject to withholding tax with effect from April 01, 2020.**

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for Commissioner General of Inland Revenue
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