



# **INLAND REVENUE DEPARTMENT**

**PUBLIC RULING NO-PR/IT/2022/01**

**Guidance with regard to the applicability of provisions of the Inland Revenue Act, No. 24 of 2017 (IR Act), as amended by the Inland Revenue (Amendment) Act, No. 10 of 2021 (Amendment Act) to the interest income accruing to or derived by any person outside Sri Lanka from the investment in Treasury Bills or Treasury Bonds.**

**June 20, 2022**

**INLAND REVENUE DEPARTMENT**

**Sri Lanka**

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**COMMISSIONER GENERAL'S PUBLIC RULING**

This Public Ruling as provided for under section 104 of the IR Act is issued for the purpose of providing guidance to the general public and officers of the Inland Revenue Department. It sets out the interpretations of the Commissioner General of Inland Revenue on the application of relevant provisions of the IR Act.

A Public Ruling may be withdrawn, either wholly or in parts, by notice of withdrawal or by publication of a new ruling.

**Commissioner General of Inland Revenue**  
**Inland Revenue Department**

INLAND REVENUE DEPARTMENT  
PUBLIC RULING NO. - PR/IT/2022/01

**1. Objective**

The objective of this Public Ruling (PR) is to provide guidance with regard to the applicability of provisions of the IR Act, as amended by the Amendment Act to the interest income accruing to or derived by any person outside Sri Lanka from Treasury Bills or Treasury Bonds.

**2. Relevant Provisions of tax statutes**

Sections 2, 3, 4, 6, 7, 85 and Third schedule of the IR Act as amended by the Amendment Act

**3. Interpretation**

The following interpretations are relevant for this PR.

I. “person” means an individual or entity and includes a body of persons corporate or unincorporate, an executor, non-governmental organization and charitable institution (Section 195 of the IR Act).

II. “interest” –

“interest” includes –

(a) a payment, including a discount or premium, made under a debt obligation that is not a repayment of capital; and

(b) a swap or other payment functionally equivalent to interest;

(c) a commitment, guarantee or service fee paid in respect of a debt obligation or swap agreement; and

(d) a distribution by a building society

(Section 195 of the IR Act).

**4. Application of the tax statutes**

(1) Section 2 the IR Act states that,

*“Income tax shall be payable for each year of assessment by –*

*(a) a person who has taxable income for that year; or*

*(b) a person who receives a final withholding payment during that year.”*

- (2) Section 3(1) of the IR Act states that,

*"Subject to subsection (2), the taxable income of a person for a year of assessment shall be equal to the total of the person's assessable income for the year from each employment, business, investment and other sources."*

- (3) Section 4 of the IR Act states that,

*The assessable income of a person for a year of assessment from employment, business, investment or other source shall be equal to –*

*(a) in the case of a resident person . . . ,*

*(b) in the case of a non-resident person, the person's income from the employment, business, investment or other source for that year, to the extent that the income arises in or is derived from a source in Sri Lanka."*

- (4) Section 6(3) of the IR Act states that,

In calculating a person's gains and profits from conducting a business for a year of assessment, exempt amounts shall be excluded.

- (5) Section 7(3) of the IR Act states that,

In calculating a person's gains and profits from an investment for a year of assessment, exempt amounts shall be excluded.

- (6) Section 85(1A) of the IR Act states that,

*"Subject to subsections (2) and (3), a person shall withhold tax at the rate provided for in paragraph 10 of the First Schedule to this Act, where such person pays a dividend, interest, discount, charge, natural resource payment, rent, royalty, premium, service fee or an insurance premium with a source in Sri Lanka to a non-resident person."*

- (7) According to Section 85(3) (c) of the IRA, Section 85(1A) shall not apply for *"payments that are exempt amounts"*.

- (8) Subparagraph (ii) of paragraph (i) of Third Schedule to the IR Act states following as exempt amount,

*"the interest accruing to or derived by –*

*"any person outside Sri Lanka on any loan granted to any person in Sri Lanka or to the Government of Sri Lanka by such person";*

## 5. Clarification

Treasury Bills are issued under the provisions of the Local Treasury Bills Ordinance and Treasury Bonds are issued under the provisions of the Registered Stock and Securities Ordinance. Such securities are debt instruments issued by the Central Bank of Sri Lanka on behalf of the government with a promise of repayment upon maturity. Interest on Treasury Bills and Treasury Bonds are paid by the Central Bank of Sri Lanka (CBSL) on behalf of the Sri Lanka Government.

The term "Loan" has not been defined in the IR Act. Therefore, general meaning is applicable in interpreting the term "Loan" for income tax purposes. In Oxford Dictionary "Loan" is defined as "A thing lent; something the use of which is allowed for a time, on the understanding that it shall be returned or an equivalent given". Black's Law dictionary defines a loan as "anything furnished for temporary use to a person at his request, on condition that it shall be returned, or its equivalent in kind, with or without compensation for its use".

As per the Dictionary meaning, if a sum of money is lent with the expectation of getting it back in future with interest, the sum of money lent can be considered as a "Loan". Hence, Treasury Bills and Treasury Bonds could be considered as loans given to the government and accordingly, interest accruing or derived from the Treasury Bills and Treasury Bonds issued by the Central Bank of Sri Lanka (CBSL) on behalf of the Sri Lanka Government could be considered as exempted amounts for income tax purposes for any person who is outside Sri Lanka. Any person whether he is a resident or a non-resident (for income tax purpose) and who remits money to Sri Lanka from outside the country for the investment in Treasury Bills or Treasury Bonds qualifies for the exemption under Subparagraph (ii) of paragraph (i) of Third Schedule to the IR Act.

Further, at the time such interest is accrued to or derived by, such person should be outside Sri Lanka to get such exemption.

## 6. Effective Date

This ruling is effective from the year of assessment 2018/2019.



**Commissioner General of Inland Revenue**

**D.R.S. Hapuarachchi**  
**Commissioner General of Inland Revenue (Acting)**  
**Inland Revenue Department**  
**Sir Chittampalam A. Gardiner Mawatha**  
**Colombo 02.**