

# **GUIDELINE FOR THE EMPLOYERS ON DEDUCTING ADVANCE PERSONAL INCOME TAX (APIT) FROM THE EMPLOYMENT INCOME**

## **YEAR OF ASSESSMENT 2020/2021**

This guideline provides necessary instructions to the employers to deduct Advance Personal Income Tax (hereinafter referred to as “APIT”) from the employment income, as already notified by the Inland Revenue Department (IRD) by its notice under the reference No. PN/IT/2020 - 03 (Revised) dated 06.04.2020 published in line with the instructions issued by the Ministry of Finance, subject to formal amendments to the Inland Revenue Act, No. 24 of 2017 (IRA), to be passed in Parliament.

This guideline is effective with effect from April 01, 2020.

## **Deduction by Employers**

Every Employer is required to deduct income tax from the gains and profits from employment of each employee who is liable to pay income tax **with his consent**, at the time of such remuneration is paid or credited. **Consent of the respective employee is not required** to deduct APIT from the Payments if such employee is a non-resident employee or if the payment is a terminal benefit.

### **1. Employee**

An employee means an individual engaged in employment. Employment means, a position of an individual in the employment of another person; a position of an individual as manager of an entity; a position of an individual entitling the individual to a fixed or ascertainable remuneration in respect of services performed; a public office held by an individual; a position of an individual to whom any payment is made or due by or from an employer or who receives any other benefit as an employee or in a similar capacity; a position as a corporation or company director; and includes a past, present or prospective employment.

### **2. Gains and Profits from Employment Liable to Tax**

Tax liability arises on total remuneration received or received by an employee in any form as described below in cash or kind, for services performed or value of any benefit arises from prospective employment.

- Salary, wages, leave pay, overtime pay, fees, pensions, commissions, gratuities, bonuses, and other similar payments;
- Personal allowance, including any cost of living, subsistence, rent, entertainment or travel allowance;
- Payments providing discharge or reimbursement of expenses incurred by the employee or an associate of the employee;
- Payments for an individual's agreement to conditions of employment;
- Payments for redundancy or loss or termination of employment;
- Retirement contribution made to a retirement fund on behalf of the employee and retirement payment received in respect of the employment;

- Payments or transfers to another person for the benefit of the employee or an associate person of the employee;
- The fair market value of benefits received or derived by virtue of the employment by the employee or an associate person of the employee;
- Other payments, including gifts, received in respect of the employment;
- The market value of shares, at the time allotted, under an employee share scheme, including shares allotted as a result of the exercise of an option or right to acquire the shares, excluding the employee's contribution for such shares;

### **3. Excluded Gains and profits from employment**

- Exempt amounts and final withholding payments;
- A discharge or reimbursement of expenses incurred by the individual on behalf of the employer;
- A discharge or reimbursement of an individual's dental, medical or health insurance expenses where the benefit is available to all full-time employees on equal terms;
- Payments made to or benefits accruing to employees on a non-discriminatory basis that, by reason of their size, type and frequency, are unreasonable or administratively impracticable for the employer to account for, or to allocate to the individual;
- The value of a right or option to acquire shares at the time such shares are granted to an employee under an employee share scheme;
- Contributions made by an employer to an employee's account with a pension, provident, gratuity or savings fund approved by the Commissioner-General.

### **4. Exempt Gain and profits from employment**

- Compensation or gratuity paid in lieu of personal injuries or death;
- Pension received from the Sri Lankan Government or from a Department of the Government;
- Amounts paid on retirement from any Provident Fund approved by the Commissioner General of Inland Revenue;
- Amounts paid on retirement from any Pension Fund or the Employees' Trust Fund, representing investment income earned for any period commencing on or after 1 April 1987;
- Income derived by an individual entitled to privileges under the Diplomatic Immunities Law and other specified conventions;
- Benefits derived by a Government employee, from a road vehicle permit granted to such employee.

### **5. Reliefs for Employment Income**

In arriving at the taxable income from employment income Rs. 3,000,000 relief is available for resident individuals and non-resident citizen individuals for each year of assessment.

Accordingly, any resident individual or non-resident citizen individual who receives remuneration in excess of Rs. 3,000,000 per annum or Rs. 250,000 per month is liable to income tax from employment income. If such employee is a non-resident (citizen) APIT should be deducted, but if such employee is a resident, he can make a declaration to deduct APIT to the employer.

## 6. Tax Tables for Tax Deductions from Employment Income

New Tax tables are applicable for the year of assessment 2020/2021 onwards (effective from April 01, 2020). Deduction of tax from remuneration should be made by applying the appropriate tax table.

## 7. How to apply Tax Tables

An employer who makes a payment during a year of assessment to an employee, in respect of that employee's employment, the employer must withhold (if the employee granted his consent) an amount from such payment in accordance with–

- (a) where the payment constitutes regular profits from the employment, of **any resident employee** (who has given consent) or any non-resident employee but citizen in Sri Lanka who has furnished a **Primary Employment Declaration, Tax Table 01 should be applied.**
- (b) where the payment constitutes a Lump-sum payment, **Tax Table 02 should be applied.**
- (c) where the payment constitutes a Once-and-for-all payment (Terminal Benefits) irrespective of the consent of the employees, **Tax Table 03 should be applied.**
- (d) where the payment received by the Non-Resident employees other than citizens in Sri Lanka irrespective of their consent, **Tax Table 04 should be applied.**
- (e) where the monthly regular profits of an employee from a primary employment is less than LKR 250,000 but the cumulative profits from the primary employment up to any month in the year of assessment exceeds LKR 3,000,000 due to payment of higher remuneration in certain months, in such instances, **Tax Table 05 should be applied.**
- (f) where the payment constitutes a payment or reimbursement of the employee's tax liability on his income from employment by the employer, **Tax Table 06 should be applied.**
- (g) where the payment constitutes of the remuneration of any employee, who has not furnished a **Primary Employment Declaration**, or who has more than one employment, **Tax Table 07 should be applied.**

*Tax Tables are available in the Inland Revenue Department Web Portal [www.ird.gov.lk](http://www.ird.gov.lk)*

## 8. Primary Employment

- The primary employment of an employee for a year of assessment is the employment with respect to which the employee has provided an employer with a declaration for that year.
- An employee shall furnish an employer, with a declaration nominating the employment as the employee's primary employment, where the monthly regular profits from such primary employment exceeds or deem to be exceed Rs.250,000 per month or Rs. 3,000,000 per year of Assessment.
- A declaration must be signed and dated by the employee and the employer, and may relate to one or more years of assessment.
- An employee must not have more than one primary employment at any one time.
- An employee may withdraw such declaration only at the end of a year of assessment, unless the primary employment is ceased.

*Note: - Please use the specified form of Primary Employment Declaration in the Inland Revenue Department Web Portal [www.ird.gov.lk](http://www.ird.gov.lk)*

## 9. Secondary Employment

With respect to an employee, Secondary Employment means any employment that is not the primary employment of the employee.

## **10. Remittance of Tax Deducted**

- i. Tax deducted from employment income from every employee during a particular month should be remitted to the Commissioner General of Inland Revenue on or before the 15<sup>th</sup> day of the month immediately succeeding that month.
- ii. Payments should be made to **any branch of Bank of Ceylon**, using specified remittance forms issued by the Inland Revenue Department.
- iii. Employers are required to read the instructions on the overleaf of the remittance form.
- iv. Employers should keep the third copy of the remittance form after making the payments.

## **11. Further Instruction and Information Regarding Deduction of Tax from Employment Income**

**These instructions are meant to guide the employers to deduct amount of tax from employees. However, if there is any inconsistency between the provisions of the Inland Revenue Act and these instructions, the provisions of the Act shall apply.**

Further details, Tax Tables and the electronic version of the relevant forms and schedules, relevant Gazette notifications can be downloaded from Inland Revenue Department Web Portal [www.ird.gov.lk](http://www.ird.gov.lk).

For any further clarification please contact;

IRD Call Centre – 1944

Business Consultation Unit - 2134284/2134286/2134289

Secretariat – (o) 2135430 / 2135438 / 2135412, (m) 0714446368 / 0718113870 / 0715350444

**Commissioner General of Inland Revenue**