

**INSTRUCTIONS TO EMPLOYERS IN THE GOVERNMENT SECTOR ON
TAXATION OF THE EMPLOYMENT INCOME AND TAX DEDUCTIONS
UNDER PAYE SCHEME**

This circular provides employers of the Public Sector with necessary guidelines to enable them to make orderly tax deductions under the PAYE Scheme in accordance with the provisions set out in the Inland Revenue Act No. 10 of 2006 as last amended by the Inland Revenue (Amendment) Act No 8 of 2014.

1. PAYE Scheme (Chapter XIV of the Inland Revenue Act No. 10 of 2006)

Every employer is required to deduct income tax from the gross remuneration for every pay period of each employee liable to income tax at the time such remuneration is paid or credited. The pay period is one month, and accordingly the tax should be deducted and remitted monthly.

2. Employee of the Public Sector

The following individuals are considered as public sector employees:

- (i) Any individual who holds any paid office under the Republic, and remunerations paid out of the Consolidated Fund;
- (ii) Any employee of any public corporation, being a public corporation which pays such emoluments or such pension or such profits from employment wholly or partly out of the sums voted annually by Parliament to such corporation from the Consolidated Fund;
- (iii) The Governor of any Province, appointed under Article 154B of the Constitution;
- (iv) Any member of Provincial Councils;
- (v) Any employee of any Provincial Council or any officer of any Provincial Public Service;
- (vi) Any member of any local authority;
- (vii) Any employee of any local authority;

- (viii) Any employee of any University which is established or deemed to be established, by the Universities Act. No. 16 of 1978;
- (ix) Any employee of the Institute of Policy Studies of Sri Lanka, established by the Institute of Policy Studies of Sri Lanka Act No. 53 of 1988; and
- (x) A member or employee of any board or commission of inquiry established by or under any law, being a board or commission all the members of which are appointed by the President or by a Minister.

3. Profits from employment liable to tax

Tax liability arises on total remuneration received by an employee, in money or otherwise from employer or others for services rendered if **not specifically exempted**. The Remuneration liable to tax includes:

- i. Salary, allowances, overtime pay, service charges etc. payable in money.
- ii. The value of any benefit received by the employee or his spouse, child or parent (e.g. free medical benefits, meals, fuel, electricity, transport etc.).
- iii. Any payment made to any other person for the benefit of the employee or his spouse, child or parent (e.g. payment of income tax, insurance premium, salaries, telephone bills, electricity bills, loan repayment, rent, hire charges, lease rentals etc).
- iv. The value of any conveyance granted free of charge , or any sum granted for the purchase of any conveyance.

Please refer the gazette notification No. 1706/18 dated May 20, 2011 for respective values regarding certain benefits.

4. Profits from employment not liable to tax-

- (i) Any sum paid to an employee by way of reimbursement of any official expenditure incurred by him / her on behalf of the employer.
- (ii) Any compensation by way of death gratuity or consolidated compensation for death or injury while on duty.
- (iii) The value of the facility of free transport between the employee's residence and his place of the work if by a motor coach provided by the employer.
- (iv) The value of benefit from provision of a motor vehicle for private use or the aggregate of any allowance paid in lieu of the provision of such vehicle and the

value of any transport facility as specified by the Commissioner General by order published in the Gazette is exempt up to Rs. 50,000/-. If more than one vehicle is provided for official and private use of public sector employee, only one vehicle should be treated as provided for private use.(This exemption is for the individual and not for each and every employment)

- (v) Rental value of one place of residence (quarters) provided rent free or at subsidized rent is exempt. If an allowance is paid in lieu of provision of quarters, such allowance too is exempt.
- (vi) The Government institutions pay or reimburse, up to a specified limit, certain expenses of official **quarters or residences**, such as **telephone** charges, **electricity** bills, **water** bills, of certain employees. As such limits specified have been set (from time to time) by the Government considering the scope of duties of respective employee categories, such benefits should not be taken into account for tax purposes.
- (vii) In relation to certain housing loans granted to employees by banks on the recommendation of Government Institution, a part of interest is borne by such Government Institutions. This part of interest borne by the Government institutions should not be treated as a taxable benefit for the respective employee.
- (viii) Pension or any profits from employment received by any Public Sector employee in respect of past services performed by said employee mentioned in paragraph 2 of this circular.
- (ix) Any special payment made for emergency or priority service or for special task is exempt from tax as referred to in section 8(1)(u). Therefore, any service specific allowance such as following (other than any bonus, incentives or rewards) should be exempted.

Health Service

- On call allowance;
- Administrative allowance (medical administrative service);
- Extra Duty allowance (paid in terms of the Health Ministry Circular No. 1539 dated 30.09.1980 as amended)

Universities

- Any allowance for Research work.

Foreign Service

- Foreign service education allowance;
- Overseas allowance.

Judicial Service

- Personal allowance;
- Appeal allowance.

Security Forces

- Uniform up keep allowance;
- Ration allowance;
- Batman allowance;
- Hard lying allowance.

5. Responsibilities of Employer and PAYE Pay Sheet (PAYE/T6)

- (i) Employers are required to maintain PAYE Pay Sheets for the purpose of PAYE Tax deduction in the prescribed form, for each employee who is liable to tax.
- (ii) The PAYE Pay Sheets should be maintained in addition to the normal pay sheets maintained by the employer for recording purpose.
- (iii) If any other alike form (format) has been designed by the employer to meet these requirements, please ensure that prior approval has been obtained for the use of such form.
- (iv) Ensure that the full remuneration including of value of benefits not in money (non cash benefits) to an employee is entered in the PAYE Pay Sheet before applying the relevant tax table.
- (v) PAYE Pay Sheets should be kept by the employer with him at least for a period of five years.

6. Tax Tables for tax deductions under PAYE Scheme

New Tax tables for the year of assessment 2014/2015 (effective from April 01, 2014) are being provided to employers (including amendments subsequently made). Tables are available in electronic form (CD) and in the Inland Revenue website www.rid.gov.lk well.

Table No	Description
01	Monthly tax deduction from regular profits
02	Rates for deduction of tax from Lump-sum payments
03	Deduction of Tax from Once-and –for-all-payments.
04	Rates for the deduction of tax from payment made to Non-citizen Employees in Sri Lanka
05	Annual Tax Table
06	Tax on Tax Rates
07	Rate for the deduction of tax from the remuneration of a Chairman or a Director or a non-executive Director of a Company, not included in the PAYE payroll, being the 2 nd employment.

Deduction of tax from remuneration is required to be made only on the basis of relevant tax table. Please consult the Assistant Commissioner (PAYE or the Unit) in case of any doubt in the application of tax tables.

How to apply Tax Tables

- The tax should be deducted if the total remuneration of any employee exceeds Rs. 50,000/- per month by applying the Tax Table No.1

Note : Annual tax free allowance for an individual is Rs.500,000/- and therefore the monthly employment income in excess of Rs. 41,667/- is liable to tax. However, a qualifying payment, up to Rs.8,333/- per month (i.e. Rs.100,000/- per year) is permitted to be deducted from the profits from employment. Above 50,000/- threshold is arrived at after considering the both tax free allowance and the deduction for qualifying payment.

- **Concessionary tax rate on employment income of employed professionals (if applicable) - Section 40C**

The maximum rate of income tax applicable on employment income of professionals (section 40C of the Inland Revenue Act), who exercises his duties as a professional, is 16 %. (Please refer to notes in the **Tax Table 01**)

For this purpose “professional” means a doctor registered under the Medical Ordinance (Chapter 105), a chartered engineer, a chartered architect, a member of the Institute of Chartered Accountants of Sri Lanka, a member of the Association of Chartered Certified Accountants, a member of the Chartered Institute of Management Accountants (U.K.) and an attorney-at-law, and includes a software engineer, a pilot licensed under the Air Navigation Act (Chapter 365), a navigation officer and a researcher or senior academic, recognized as an accredited professional.

The employer is required to make sure that the professionals employed by him are truly exercised their duties as professionals and should get confirmations from such professionals in relation to annual subscription payments made to relevant professional bodies etc., when applying concessionary rate. The above mentioned professionals who are performing only administrative duties (out of the area of their profession) are not entitled for the application of concessionary rate. For further information or any clarification please contact the Commissioner (Secretariat) or log on to the IRD Website ird.gov.lk

- Tax should be deducted from lump sum payments (bonus, incentive, etc) by applying Tax Table No.2, even-though the monthly remuneration is less than Rs.50,000/-

- Any employee whose salary (inclusive of non-cash benefits) is below the above limit but the aggregate exceeds Rs.600,000 during the year as a result of receipt of increments etc., tax should be deducted by applying the Tax Table No. 5.
- Tax should be deducted from 'once-and-for-all payments' made at the termination of employment or at the retirement, by applying the Tax Table No.3. (Please take into account the exemptions provided under paragraph 4(ii) & (viii).)
- In the case of an individual employed under more than one employer, normal tax tables are applicable only in respect of the income from the main employer. The tax should be deducted by the second employer at the rate of 10% where the aggregate of such payments or benefits per month does not exceed Rs. 50,000/- and 16% if such payments exceed Rs. 50,000/- per month. However, tax should not be deducted where the aggregate monthly income from the employment in public sector is less than Rs.50, 000/-, subject to the confirmation of the same by the main employer.
- The tax deducted from employment income under PAYE Scheme is treated as final if the employee concerned has no any other income which is not subject to final WHT. Tax paid on employment income will not be refunded and any direction to the employer will not be issued.
- Nothing can be deducted as, interest on loans, annuity, ground rent or any qualifying payment from profits from employment and tables should be applied on gross remuneration.

7. Remittance of Tax deducted to IRD

- i. Tax deducted under PAYE scheme from every employee during a particular month should be remitted to the Commissioner General of Inland Revenue on or before the 15th day of the month immediately succeeding.
- ii. PAYE payments should be made to A/C No. 014-1-0014 -0110422 Peoples Bank, Union Place Branch, and Colombo 02. Using Remittance forms issued by the PAYE Branch.
- iii. Third copy of the remittance form issued to you by the bank should be kept safely in order to produce when required to confirm the payment

8. Furnishing the Annual Declaration (PAYE 94(1) and PAYE / T-9A Schedule)

Annual Declaration of government sector should be furnished to PAYE Branch not later than the 30th of April every year.

All the employers registered for PAYE scheme are kindly requested to submit an electronic version of Employer's Annual Declaration, T-9A and T-9A (A) forms to the e-mail address of paye9a@ird.gov.lk since the Department has planned to computerized PAYE Declarations.

Further details, Tax Tables and the electronic version of the relevant forms can be downloaded from www.ird.gov.lk

9. Issuing assessments on employers

- (i) Estimated assessments will be issued whenever employer fails to,
 - (a) make deduction under PAYE scheme,
 - (b) remit the tax to the Commissioner General of Inland Revenue,
 - (c) furnish annual Declaration.
- (ii) The employer is liable to pay a penalty equal to 10% of the tax in default in addition to such tax.
- (iii) If the tax is not paid within 30 days from due date, an additional penalty of 2% will be imposed for every 30 days or part thereof as per Section 127 of the Inland Revenue Act.
- (iv) The employer is personally held responsible for tax and penalty imposed on him by way of an assessment. Such sum could be recovered from the employer as per chapter XXVI of the Inland Revenue Act.
- (v) Employers are held responsible for recovery and remittance of taxes on or before the due date. Those who fail to do so are personally liable to pay such taxes with penalties.

10. Penalty for offences

Legal Action will be instituted against those employers who fail to send their annual declarations as required by Section 120(d) of the Inland Revenue Act No. 10 of 2006 or Penalties up to a maximum of Rs. 50,000/- will be imposed for failure to furnish the Annual Declaration on or before the due date. Please ensure that an acknowledgment card for the Annual Declaration is received from the Department.

11. Certificate of tax deduction (PAYE / T-10)

Every employee must be issued with a certificate of tax deduction.

- (i) Before the 30th day of April in respect of the year ended 31st March ; or
- (ii) Before the expiry of 30 days from the date of termination of service in respect of an employee who is terminating service.

Note :

- (I) If a duplicate T-10 for a period of one year or less than one year is issued at any time a note should be made on such T-10 in red ink stating the reason for such issue and/or that it is a duplicate.
- (II) When the employer pays the tax of the employee please state clearly the amount of tax paid by the employer on behalf of the employee and the income on which such tax has been computed (Total remuneration should be declared by adding the tax so paid)

On fees paid by second employer T /10 NEW is applicable

12. Overpayments of tax by Employer

- (i) When remittance is made in excess of tax that was deducted for any pay period, such sum can be set off against subsequent payment and the Commissioner General should be informed of such instances. Such adjustments can be made only within the year of assessment in question.
- (ii) When deduction has been made in excess of tax that was to be deducted for any pay period, such sum can be set off against subsequent payment within that year of assessment or in the immediately succeeding year of assessment, and the Commissioner General should be informed of such instances within two weeks from the date such adjustment has been made.

13. Further Instructions and Information Regarding PAYE Scheme

These instructions are meant to guide the Public Sector employers to deduct correct 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. For any further clarification please contact the Commissioner of:

Tax Payer Service Unit	- 2328702
Secretariat	- 2135411/ 2135412 / 2135413
PAYE Branch	- 2302246

M. Samarasekera

Mallika Samarasekera
Commissioner General of Inland Revenue

Mallika Samarasekera
Commissioner General of Inland Revenue