



INLAND REVENUE DEPARTMENT

PUBLIC RULING NO-PR/IT/2021/01

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 persons who submit accounts for an alternative period other than the period of twelve months commencing on the first day of April of any year and ending on the thirty first day of March in the immediately succeeding year.

August 09, 2021

INLAND REVENUE DEPARTMENT

Sri Lanka

INLAND REVENUE DEPARTMENT
PUBLIC RULING NO.- PR/IT/2021/01

CONTENTS

1. Objective	4
2. Relevant Provisions of tax statutes	4
3. Interpretation	4
4. Application of tax statute	5
5. Clarification	5

INLAND REVENUE DEPARTMENT
PUBLIC RULING NO.- PR/IT/2021/01

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A Public Ruling may be withdrawn, either wholly or in part, by notice of withdrawal or by publication of a new ruling.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/2021/01

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 persons who use an approved alternative period of twelve months, other than the period commencing on the first day of April of any year and ending on the thirty first day of March in the immediately succeeding year, to compute the income tax payable for a given year of assessment.

2. Relevant Provisions of tax statutes

Section 20(1), 20(2) and 20(3) of the IR Act as amended by the Amendment Act

3. Interpretation

The following interpretations are relevant for this PR.

- I. “year of assessment” means the period of twelve months commencing on the first day of April of any year and ending on the thirty first day of March in the immediately succeeding year [Section 20(1) of the IR Act].
- II. “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).
- III. “company” –
 - (a) means a corporation, unincorporated association or other body of persons;
 - (b) includes –
 - (i) a friendly society, building society, pension fund, provident fund, retirement fund, superannuation fund or similar fund or society; and
 - (ii) a government excluding the Sri Lankan government, a political sub-division of a government, or a public international organization; but
 - (c) excludes a partnership or trust; and
 - (d) the following shall be deemed to be a company: -
 - (i) a partnership in which at least twenty of the partners have limited liability for the debts of the partnership; and
 - (ii) a unit trust or mutual fund to which section 59 applies (Section 195 of the IR Act).

IV. “trust” means an arrangement under which a trustee holds assets (Section 195 of the IR Act).

4. Application of the tax statutes

Section 20 of the IR Act defines the “year of assessment” as the period of twelve months commencing on the first day of April of any year and ending on the thirty first day of March in the immediately succeeding year. Section 20(2) of the IR Act was repealed with effect from April 1, 2018 and substituted therefore, of the following subsection by the Amendment Act.

“Where a trust or company is unable to submit the accounts for the period of twelve months of the year of assessment as provided in subsection (1), such trust or company may apply to the Commissioner-General requesting that the accounts based on an alternative period of twelve months be used to compute the income tax payable for a given year of assessment. The Commissioner-General may approve such request on such terms and conditions as he thinks fit. The Commissioner-General may revoke such approval if the trust or company fails to comply with terms and conditions attached to the approval.”

5. Clarification

According to Section 20(1) of the IR Act, the “Year of Assessment” for the purpose of the IR Act is commencing on the first day of April of any year and ending on the thirty first March of the immediate succeeding year with 12 months.

Further, as provided in Section 20(2) of the IR Act, which was amended by the Amendment Act with effect from 01.04. 2018, *“where a trust or company is unable to submit the accounts for the period of twelve months of the year of assessment as provided in subsection (1), such trust or company may apply to the Commissioner-General requesting that the accounts based on an alternative period of twelve months be used to compute the income tax payable for a given year of assessment. The Commissioner-General may approve such request on such terms and conditions as he thinks fit. The Commissioner-General may revoke such approval if the trust or company fails to comply with terms and conditions attached to the approval.”*

However, a trust or company which prepares its accounts as per the approval of the Commissioner-General for an alternative period of twelve months period (which is not commencing from the first day of April) is also required to comply to the **same year of assessment** (commencing from first day of April) and such person uses such accounts only to compute the **income tax payable** for a given year of assessment. Therefore, all the provisions of the IR Act and the Amendment Act are similarly applicable without any change for such a person also, except any specifically excluded provision in the Amendment Act.

To explain further, amendments of the Amendment Act are applicable as follows for a trust or company which prepares accounts for an alternative period to compute the income tax payable as provided in Section 20(2) of the IR Act as amended.

- I. Respective amendments to the provisions of the IR Act (excluding withholding tax rates) under the Chapters of “Imposition of Income Tax , Income Tax Base, Calculation of the Income Tax, Assets and Liabilities, Types of Persons, Special Industries and International, and from First Schedule to Sixth Schedule” that are mainly applicable for the computation of **income tax payable** are effective from the commencement of the relevant year of assessment (from the date of 01.04.2018, 01.04.2019, 01.04.2020 or 01.04.2021; as the case may be;). Accordingly, a trust or a company which is using an alternative accounting period is also required to apply those provisions with effect from commencement of the respective year of assessment to compute its income tax payable for such year of assessment.

Exceptionally, there are some provisions in the Amendment Act that are effective from the date of January 1, 2020 and applicable in computation of the income tax payable for the year of assessment 2019/2020. In line with those amendments, the Commissioner-General of Inland Revenue has published specified guidelines under Section 57 of the Amendment Act, through the Extraordinary Gazette Notification No.2235/5 dated 14.06.2021, for the computation of income tax payable for the year of assessment 2019/2020.

- II. The amendments incorporated to the IR Act by the Amendment Act, in respect of administrative provisions that are **not related to the computation of income tax payable** for a given year of assessment are **effective from the dates of the respective amendments came in to operation** (the relevant sections under the chapters of “Tax Payment Procedure, Administration Provisions, Record Keeping and Information Collection, Tax Returns, Assessments, Objections and Appeals, Liability for and Payment of Tax, Interest, Recovery of Tax, Penalties, Criminal Proceedings and withholding tax rates of the First Schedule”). **Accordingly**, those administrative amendments are similarly applicable without any change to a trust or a company that prepares accounts for the period of twelve months commencing on first day of April and ending on thirty first day of March and to a trust or company that prepares accounts for an alternative accounting period.

For an example, as per Section 113(1A) of the IR Act as amended, *“a company which is incorporated in or outside Sri Lanka or a public corporation shall only file its tax returns electronically through the use of a computer system or mobile electronic device.”* The provision is effective from the date of April 1, 2021 and accordingly companies and public corporations (whether accounting period is different or not) are required to e-file their tax

returns that are due to be filed on or after April 1, 2021 (including the income tax return for the year of assessment 2020/2021).

However, Section 120(1A) of the IR Act as amended is an exception for above explanation. That amendment requires to prepare and maintain separate financial statements to identify such part of taxable income from gains and profits from the business or investment activity in applying each income tax rate to each part of the taxable income or to identify the exempted gains and profits, where a person derived different gains and profits taxable at different rates or having exempted amounts. The section is effective from the year of assessment commencing from April 1, 2021 (from the year of assessment 2021/2022). All taxpayers whether the accounting period is different or not, have to be complied with Section 120(1A) of the IR Act from the year of assessment 2021/2022 (A person who prepares accounts for an alternative period is required to submit the separate financial statements under Section 120 (1A) of the IR Act also for the same alternative period).

- III.** With regard to credits for non-final withholding tax under section 89 of the IR Act, Withholdee shall be entitled to a tax credit for relevant period in which the respective payment has been considered for income tax purposes.
- IV.** Amendments made in respect of interpretations in Section 195 of the IR Act are linked with other provisions of the IR Act or with schedules to the IR Act and accordingly, those amendments are to be applied appropriately as explained in above first and second paragraphs. For an example, amended definitions for “Small and Medium Enterprise” and “Tax Returns” should be treated as per the above first paragraph and the second paragraph respectively.


Commissioner General of Inland Revenue

H. M. W. C. Bandara
Commissioner General
Inland Revenue Department
Sir Chittampalam A. Gardiner Mw
Colombo 02