

Tax Table No.2

Rates for the Deduction of Tax from Lump-sum Payments

This table should be applied for deducting tax on lump-sum payments made to resident employees who has given consent to deduct tax by a declaration or non-resident employee but citizen in Sri Lanka regardless of his consent. The amount of tax deductible should be computed on the lump-sum payments at the time of making each lump-sum payments to employees during a year of assessment.

Payments such as bonus, leave encashment, medical expenses reimbursements, salary arrears due on service reinstatement, the market value of shares at the time of allotment under an employee share scheme (including shares allotted as a result of the exercise of an option or right to acquire the shares, reduced by the employee's contribution for the shares), etc. are considered as lump-sum payments.

Following steps should be followed in computing the amount of tax deductible on each of the Lump-sum payments.

First, compute the Estimated Gross Aggregate Remunerations (EGAR) from employment during the year of assessment including the Lump-sum payments.

- (A) Ascertain the aggregate gross monthly remunerations already paid to the employee during the year of assessment up to and including the month the lump-sum payment is made (excluding any Lump-sum payment/s paid);
- (B) Ascertain the aggregate gross monthly remunerations payable to the employee during the year of assessment from the succeeding month the Lump-sum payments is made (excluding any Lump-sum payment/s payable);
- (C) Ascertain the aggregate gross Lump-sum payments already made up to now including the Lump-sum payment being made now, and such Lump-sum amounts payable during the year of assessment (excluding monthly remunerations already counted under above (A) and (B)); and
- (D) Compute the Estimated Gross Aggregate Remunerations (EGAR) including the Lump-sum payments during the year of assessment by aggregating the amounts computed under above (A), (B) and (C).

Computation of Estimated Gross Aggregate Remunerations including the Lump-sum payments - EGAR

Gross aggregate monthly remunerations already paid during the Y/A	= (A):	XXX
Gross aggregate monthly remunerations payable during the Y/A	= (B):	XXX
Gross aggregate Lump-sum payments already made, being made now, & payable during the Y/A	= (C):	<u>XXX</u>
Estimated Gross Aggregate Remunerations EGAR (paid and payable) during the Y/A	= (D):	<u>X.XXX</u>

Then, the appropriate tax rate applicable for Lump-sum payment being made now should be selected from the tax table 02 given below, based on above Estimated Gross Aggregate Remunerations (EGAR), i.e. **D**. Thereafter, the amount of tax deductible on Lump-sum payment being paid now should be computed giving credit for any amount of tax previously deducted, if any, on Lump-sum payments previously made during the year of assessment. However, all these components are included in the formulae given in the Table 2 below.

Tax Table No. 02 - Tax Deductions on Lump-sum Payments

Estimated Gross Aggregate Remunerations (EGAR) during the year of assessment (Rs.)	Amount of Tax Deductible (Rs.)
If D is equal or less than 3,000,000	Nil
If D is in between 3,000,001 and 6,000,000	$(D \times 6\%) - [(180,000 + \text{Aggregate of monthly tax deducted on } A + \text{Aggregate of monthly tax deductible on } B, \text{ as per Table 01}) + \text{Tax deducted previously on Lump-sum payments, if any}]$
If D is in between 6,000,001 and 9,000,000	$(D \times 12\%) - [(540,000 + \text{Aggregate of monthly tax deducted on } A + \text{Aggregate of monthly tax deductible on } B, \text{ as per Table 01}) + \text{Tax deducted previously on Lump-sum payments, if any}]$
If D is greater than 9,000,000	$(D \times 18\%) - [(1,080,000 + \text{Aggregate of monthly tax deducted on } A + \text{Aggregate of monthly tax deductible on } B, \text{ as per Table 01}) + \text{Tax deducted previously on Lump-sum payments, if any}]$

Example 01

Mr. Silva is a resident employee of a private institution received a bonus of Rs. 2,500,000 in April, 2020. His monthly regular profits and gains from employment (including non-Cash Benefits) is Rs 500,000.

Tax deductible on the **bonus** payable in April, 2020 should be computed as follows:

Please note that the tax deductible on monthly remunerations should be computed using Tax Table 01, separately.

Computation of tax deductible on Bonus paid in April, 2020

Step 01 – Computation of Estimated Gross Aggregate Remunerations during the Y/A 2020/21

	Rs.
Gross aggregate monthly remunerations already paid during the Y/A (Monthly remuneration for the month of April 2020, 500,000x1)	= (A): 500,000
Gross aggregate monthly remunerations payable during the Y/A (Monthly remuneration payable from May 2020 to March 2021, 500,000 x 11)	= (B): 5,500,000
Gross aggregate Lump-sum payments already made, being made now, & payable during the Y/A (Amount of Bonus received in April, 2020, Rs. 2,500,000)	= (C): <u>2,500,000</u>
Estimated Gross Aggregate Remunerations EGAR (paid and payable) during the Y/A	= (D): <u>8,500,000</u>

Step 02 – Computation of tax deductible on Lump-sum payment in April, 2020

As the EGAR or **D** falls in between Rs. 6,000,001 and Rs. 9,000,000, the following formula should be applied in computing the amount of tax deductible in April, 2020 on the bonus.

$(D \times 12\%) - [(540,000 + \text{Aggregate of monthly tax deducted on } A + \text{Aggregate of monthly tax deductible on } B, \text{ as per Table 01}) + \text{Tax deducted previously on Lump-sum payments, if any}]$

$$(8,500,000 \times 12\%) - [(540,000 + 15,000 + (15,000 \times 11) + 0] = 300,000$$

Therefore, tax deductible on Bonus in April, 2020 is Rs. 300,000

Example 02

Suppose in the same circumstances in above example 01, Mr. Silva receives another Bonus of Rs. 2,000,000 in the month of December, 2020.

Tax deductible on the **bonus** payable in December 2020 should be computed as follows:

Please note that the tax deductible on monthly remunerations should be computed using Tax Table 01, separately.

Computation of tax deductible on Bonus payable in December, 2020

Step 01 – Computation of Estimated Gross Aggregate Remunerations during the Y/A 2020/21

	Rs.
Gross aggregate monthly remunerations already paid during the Y/A (Monthly remuneration for the months from April 2020 to Dec. 2020, i.e. 500,000 x 9)	= (A): 4, 500,000
Gross aggregate monthly remunerations payable during the Y/A (Monthly remuneration payable from January 2021 to March 2021, i.e. 500,000 x 3)	= (B): 1,500,000
Gross aggregate Lump-sum payments already made, being made now, & payable during the Y/A (Amount of Bonus received in April and December 2020, i.e. 2,500,000+ 2,000,000)	= (C): <u>4,500,000</u>
Estimated Gross Aggregate Remunerations EGAR (paid and payable) during the Y/A	= (D): <u>10,500,000</u>

Step 02 – Computation of tax deductible on Lump-sum payment in April, 2020

As the EGAR or **D** is greater than Rs. 9,000,000, the following formula should be applied in computing the amount of tax deductible in April, 2020 on the bonus.

$(D \times 18\%) - [(1,080,000 + \text{Aggregate of monthly tax deducted on } A + \text{Aggregate of monthly tax deductible on } B, \text{ as per Table 01}) + \text{Tax deducted previously on Lump-sum payments, if any}]$

$$(10,500,000 \times 18\%) - [(1,080,000 + (15,000 \times 9) + (15,000 \times 3) + 300,000] = 330,000$$

Therefore, tax deductible on Bonus in December, 2020 is Rs. 330,000