TAX TABLE NO: 08

Rate for the deduction of tax from the employment income received from foreign employer

This table applies to resident employees who are physically present in Sri Lanka but work remotely for a foreign employer.

This table does not apply to independent service providers and freelancers, as their income is considered as business income.

1. This Table applies, subject to the fulfillment of all the following conditions:
   a) The employer must be a person completely outside Sri Lanka (i.e., the employer cannot have a Sri Lankan permanent establishment);
   b) The employee's services must be utilized outside Sri Lanka by the employer; and
   c) Payments to the employee must be received in foreign currency and remitted through a bank to Sri Lanka.

2. According to Section 86 (4) of the Inland Revenue Act, No. 24 of 2017 (as amended), *where a withholding agent fails to withhold tax from a payment as required by the Division II of Chapter VIII –*
   (a) the withholdee shall be jointly and severally liable with the withholding agent for the payment of the tax to the Commissioner-General; and
   (b) the tax shall be payable by the withholdee within fifteen days after the end of the calendar month in which the payment is received.

   Advance Personal Income Tax (APIT) is also considered a withholding tax, as outlined in Section 83A(3) of the Inland Revenue Act. Therefore, when the employer fails to deduct APIT, the employee must pay the due APIT amounts within fifteen days after the end of the calendar month in which the payment is received.

3. Since the employer is a person outside Sri Lanka, the employer will fail to deduct APIT. Therefore, the employee must comply with the requirement by making the due tax payment, calculated as in item 4, each month. The payment must be made to the employee's Taxpayer Identification Number (TIN), and the tax type for this purpose is Individual Income Tax (IIT).

4. Starting from April 1st of the year of assessment and continuing until the end of the year of assessment, which is March 31st of the following year, compute the cumulative employment income (after converting the foreign currency amounts into Sri Lankan Rupees) received each month. Tax payments should begin when the cumulative income exceeds Rs. 1,800,000.

Cumulative Employment Income (Rs.)	Tax Rate
Up to 1,800,000	Relief from Tax
Exceeds 1,800,000 but not exceeding 2,800,000	6% of Cumulative Employment income less 108,000
Exceeds Rs. 2,800,000	15% of Cumulative Employment income less 360,000

Compute the total tax liability on the cumulative employment income by applying the above table. The due tax amount for the relevant month shall be calculated by subtracting the cumulative tax amount paid up to the end of the previous month from the total tax liability for the relevant year of assessment.

Example:

Mr. Kasun Meedeniya is a software developer who was directly recruited and works remotely for a UK-based company. He stays in Sri Lanka and develops software based on instructions received from the foreign company. He receives a monthly remuneration of USD 6,000 and a bonus of USD 10,000 in the month of October. Foreign currency remittances (converted to Sri Lankan Rupees at CBSL buying rate) by the employer to his account and tax payments should be made as follows:

Month (Y/A 2025/2026)	**FC receipts (Converted to Rs.)**	**Cumulative Employment Income (Rs.)**	**Total Tax Liability (Rs.)**	**Payable for each month (due on or before 15th day of next month) (Rs.)**
April	1,794,000	1,794,000	-	-
May	1,806,000	3,600,000	3,600,000 * 15% - 360,000 = 180,000	180,000 - 0 = **180,000**
June	1,728,000	5,328,000	5,328,000 * 15% - 360,000 = 439,200	439,200 – 180,000 =**259,200**
July	1,710,000	7,038,000	7,038,000 * 15% - 360,000 = 695,700	695,700 - 439,200 = **256,500**
August	1,776,000	8,814,000	8,814,000 * 15% - 360,000 = 962,100	962,100 – 695,700 = **266,400**
September	1,800,000	10,614,000	10,614,000 * 15% - 360,000 =1,232,100	1,232,100 – 962,100 = **270,000**
October (with bonus)	4,752,000	15,366,000	15,366,000 * 15% - 360,000 = 1,944,900	1,944,900 – 1,232,100 = **712,800**
November	1,728,000	17,094,000	17,094,000 * 15% - 360,000 = 2,204,100	2,204,100 – 1,944,900 = **259,200**
December	1,716,000	18,810,000	18,810,000 * 15% - 360,000 = 2,461,500	2,461,500 – 2,204,100 = **257,400**
January	1,614,000	20,424,000	20,424,000 * 15% - 360,000 = 2,703,600	2,703,600 – 2,461,500 = **242,100**
February	1,740,000	22,164,000	22,164,000 * 15% - 360,000 = 2,964,600	2,964,600 – 2,703,600 = **261,000**
March	1,752,000	23,916,000	23,916,000 * 15% - 360,000 = 3,227,400	3,227,400 – 2,964,600 = **262,800**