

INSTRUCTIONS TO THE EMPLOYERS IN THE PUBLIC SECTOR

**Taxation of the Public Sector employment income
and, the deduction of tax by the employer 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 set out in the Inland Revenue Act No. 10 of 2006 as amended by the Inland Revenue (amendment) Acts No. 22 of 2011 and 18 of 2013, respectively.

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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 every employee who is liable to income tax, at the time such remuneration is paid or credited. The pay period is a month, week or such other period in respect of which remuneration is calculated and paid by an employer to an employee, and accordingly, the tax should be deducted and remitted monthly.

2. Meaning of the Employee in the Public Sector

An employee means any individual who earns remuneration in money or otherwise, for the present or past services performed by such individual.

The following individuals are considered as public sector employees.

- (i) Any individual including member of Parliament who holds any paid office under the Republic, and receiving remunerations 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 to any officer of any Provincial Public Service;
- (vi) Any member of any local authority
- (vii) Any employee of 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;
- (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.

[Employees of any Statutory Board or Corporation (other than any Board or Corporation referred to in sub-paragraph (ii) above, are also liable to be tax deducted under PAYE Scheme similar to private sector employees]

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. A copy of the Gazette Notification is attached.

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 such employee, 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 benefit of free transport between the employee's residence and his place of the work facilitated by the employer, by providing a motor coach.
- (iv) The value of benefit from provision of motor car for private use, or payment of an allowance instead 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. If the allowance paid is more than Rs.50,000/-, then only the excess over 50,000/- forms part of employment income.
- (v) Rental value of one place of residence (quarters) provided rent free or at subsidized rent. (If an allowance is paid in lieu of provision of quarters, such allowance is also 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 Institutions, a part of the relevant 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 for past services performed by any Public Sector employee,
- (ix) Any special payment made for emergency or priority service, or for special task assigned to public sector employee, as referred to in section 8(1)(u). Accordingly, any service specific allowance such as following (other than any bonus, incentives or rewards) will 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 the Employer and the 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) These pay Sheets should be maintained in addition to the normal pay sheets maintained by the employer for recording purpose.
- (iii) If any other specimen form has been designed by the employer to meet these requirements, please ensure that pre approval has been obtained for use of such form.
- (iv) Ensure that the full remuneration inclusive of value of benefits not in money to an employee is entered in the PAYE Pay Sheet before applying the relevant tax table.
- (v) These sheets should be kept by the employer with him at least for a period of five years.

6. Tax Tables for deductions under PAYE Scheme

New Tax tables for the year of assessment 2011/2012 (effective from April 01, 2011) are being provided to employers (including amendments subsequently made). Tables are available in electronic form (CD) and in the Inland Revenue website as well.

Table No	Description
01	Monthly tax deduction from regular profits
02	Rates for deduction of tax from Lump-sum payment
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; or - of any 2 nd employment.

Deduction of tax from remuneration is required to be made only on the basis of relevant tax table. Please consult the Assessor (PAYE or the Unit) in case of any doubt in the application of these 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 of any individual is Rs.500,000/-. Nevertheless, with the special exemption or deduction for qualifying payment up to 100,000/- per year (or Rs.8,333/-per month) for employees, the monthly employment income not exceeding Rs.50,000/- will not be liable to tax.

- Tax should be deducted from lump sum payments (bonus, incentive, etc) by applying Tax Table No.2, even-though the monthly salary 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. 25,000/- and 16% if such payments exceed Rs. 25,000/- 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 is treated as final if the employee concerned has no any other income which is not final. 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, other than the qualifying Payment referred to above of Rs.8333/- per month.

7. Remittance of tax deducted

- 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, to produce when required to confirm the payment, should be kept safely

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.

9. Issuing assessments on employers

- (i) Estimated assessments will be issued whenever employer falls 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/- could 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 services.

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)

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 Clarification or Information Regarding PAYE Scheme

These instructions are meant to guide the employers to deduct correct amount of tax from employees. For any further clarification or information please contact the Deputy Commissioner of

Tax Payer Service Unit	- 22134171 / 2135411
Secretariat	- 2135412 / 2135413 or
Inland Revenue web site	www.ird.gov.lk

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