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Circular No: SEC/2023/E/04

17 July 2023

To all District Secretaries, Divisional Secretaries, Chief Accountants, Finance Officers of Public Corporations and Statutory Bodies

Deduction of Advance Income Tax/Withholding Tax (AIT) from the Payments of Interest related to Compensations for Land or Immovable Properties Acquired by Government for Public Purposes

This circular intends to provide instructions and explanation on the deduction of AIT from the payments of interest arisen due to the delayed compensations to the owners of land or immovable properties acquired by the government for public purposes and on related matters.

1. Liability to Deduct AIT

In terms of section 84A (1A) of the Inland Revenue Act No.24 of 2017(IR Act) as amended by Act No.10 of 2021, Act No.45 of 2022 and Act No.04 of 2023, a **person** shall deduct AIT from the payment of interest which has a source in Sri Lanka at the rate of 5 %.

The term “person” should be as interpreted in section 195 of the IR Act and accordingly, **Government** of Sri Lanka is not interpreted as “person” for the purpose of the IR Act. The term government means **any government department, ministerial office and any local authority** whereas it does not include any public corporation, public company, statutory board or any project office or fund established by such government department, ministerial office or by any local authority.

Accordingly, where the statutory liability to make the payment of interest aforementioned lies with any government department, ministerial office or on any local authority (referred to as **government institutions not considered as persons** hereinafter) such an institution is not required to deduct AIT from the payment of the interest. Whereas the statutory liability to pay such interest lies with any public corporation, public company, statutory board or any project office or fund established by such government department, ministerial office or by any local authority (hereinafter referred to as **government institutions considered as persons**) (ex:- Road Development Authority, National Housing Development Authority, Urban Development Authority, National Water Supply and Drainage Board), such institution is required to deduct AIT at the rate of 5% from such interest payment.

2. Deduction of AIT

As explained in item (1) above, where any **government institution considered as a person** making a payment of interest on or after 01 January 2023 (irrespective of the time of statutory liability occurred whether it is prior to 01/01/2023) shall deduct AIT at the rate of 5% from such interest payment. In an instance where the statutory liability to make the interest payment lies with a **government institution considered as a person** but the payment is making through

a **government institution which is not considered as a person**, the said **government institution considered as a person** shall deduct the AIT at 5% from such interest amount and release the balance interest payment to that **government institute not considered as a person** (Ex. Divisional Secretariat) to be paid to the property owner. Further, where the statutory liability to make the interest payment lies with a **government institution not considered as person** but the payment is made through a **government institution considered as a person**, it is not required to deduct AIT at the rate of 5% on such an interest payment.

3. Tax Exemption

If any person receiving the interest is entitled to an exemption of tax on interest income, such person is required to submit an Interest Exemption Confirmation letter issued to that effect by the Commissioner of the Customer Supporting and Promotion Unit located at the Head Office of the Inland Revenue Department and no AIT shall be deducted from the interest paid to such persons.

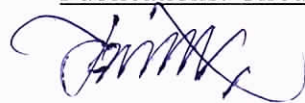
The government institutions paying interest to such persons shall maintain records of such persons with the copies of such Interest Exemption Confirmation letters.

4. Providing Information

Any government institution whether considered to be or not to be a person shall provide the information (whether the AIT is deducted or not) in respect of the interest payments made by the institution (including information as to the person who received the interest income, National Identity Card No. Postal Address, Amount of compensation and interest payment, Date of payment, AIT deducted if any) to the Information & Forced Registration Unit of the Inland Revenue Department (Commissioner Information & Forced Registration Unit, Department of Inland Revenue, 25th Floor, Mehwara Piyasa, No.220, Kirula Rd, Narahenpita, Colombo 05) prior to the 15th day of the immediately succeeding month from the month of payment.

5. Remitting the Deducted Tax, Issuing the Withholding Tax Certificates and Other related matters

In this regard, instructions of the circular Number SEC/2022/E/03 dated December 23, 2022, issued to the Withholding Agents should be followed. This circular has been published in the web site of the Inland Revenue Department (www.ird.gov.lk) under Publications: Circulars.



D.R.S.Hapuarachchi

Commissioner General of Inland Revenue

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2. Auditor General, Department of Audit
3. To All District Secretaries :To be copied to all Divisional Secretaries
4. Chairman, Road Development Authority
5. Chairman, National Housing Development Authority
6. Chairman, Urban Development Authority
7. Chairman, National Water Supply and Drainage Board