

INSTRUCTIONS TO EMPLOYERS ON TAX DEDUCTIONS UNDER PAYE SCHEME APPLICABLE FOR ALL PRIVATE SECTOR EMPLOYERS, BANKS, STATUTORY BOARDS, CORPORATIONS ETC.

YEAR OF ASSESSMENT – 2014/2015

This circular provides employers with necessary guidelines to enable them to make orderly deductions under the Pay-As-You-Earn (PAYE) Scheme in accordance with the provisions set out in the Inland Revenue Act No: 10 of 2006 as last amended by the Inland Revenue (Amendment) Act No 8 of 2014.

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 each employee liable to income tax at the time such remuneration is paid or credited (Section 114). At large, the employers apply one month pay period and therefore, PAYE Tax Tables for deduction of tax from regular employment benefits have been prepared on monthly basis.

2. Employee

An employee means any person who receives remuneration in cash or kind for present or past services performed by such person, and includes a Director/Chairman of a Company or Corporation and a working partner of a partnership.

3. Profits from employment liable to tax

Tax liability arises on total remuneration received by an employee in any form as described below in cash or kind, for services performed (e.g. salary, allowances, commission, leave pay, bonus, overtime pay, free quarters, service charge, etc.) if not specifically exempted.-(*Please see the item 4*)

- (a) Payments for services whether received from the employer or others.
- (b) The value of any benefit received by the employee or his spouse, child or parent (e.g. free medical benefits, meals, fuel, electricity, transportation etc.)
- (c) 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.)
- (d) The value of any conveyance granted free of charge, or any sum granted for the purchase of any conveyance.

Value of non-cash benefits specified by the Commissioner General of Inland Revenue –

Computation of value of benefit is as follows: (Please refer the **Gazette Notification No. 1706/18**, dated 20 May 2011 for respective values regarding certain benefits)

(a) Free or subsidized Quarters and Apartments

If the employer provides quarters or apartments to employees (including Directors) such benefit should be added to the remuneration for PAYE tax calculations.

1. Rental Value

Gross rent or rental value (rating assessment + rates) whichever is higher to be taken as the benefit.

However the maximum limit of benefit is,

Monthly Remuneration (Rs)	Monthly Non-Cash Benefit (Rs)		
	In Rated area	In Unrated area	Estate Bungalows
If less than or equal to 150,000	10,000	10% of remuneration or 3,000	7.5% of remuneration or 2,000
If more than 150,000	15,000	whichever is less	whichever is less
If such residence is furnished	2.5% of remuneration or 1,500 whichever is less		

2. Where the employer reimburses any expense connected with a house or apartment occupied by the employee, the value of benefit shall be the actual expense reimbursed by the employer.

Note: If any expense or part thereof is borne by the employee, such amount should be deducted from the benefit as computed above and only the residue should be taken as the value of benefit.

(b) Provision of Motor Vehicles for private use (fully or partly)

- (i) Benefit of provision of one motor vehicle by the employer for private use or the aggregate of any allowance paid in lieu of the provision of a vehicle and the value of transport facility as the case may be specified by the Commissioner General of Inland Revenue by the Order published in the Gazette up to Rs. 50,000/- for a calendar month, is exempt.

If the employer provides vehicle, use the following table to calculate the value of transport facility per month according to the engine capacity of motor vehicle or motor cycle.

Facility Provided	Monthly Non Cash Benefit (Rs)		
	the engine capacity is 1500cc or more	the engine capacity is below 1500cc	Motor Cycle
Motor Vehicle + Fuel +Driver	50,000	35,000	-
Motor Vehicle +Fuel	35,000	25,000	5,000
Motor Vehicle +Driver	30,000	20,000	-
Motor Vehicle	15,000	10,000	3,000

- (ii) The value of the benefit from private use of vehicle provided by the employer where accurate record of such usage is maintained by such employer, shall be deemed to be –
- Any Motor vehicle - Fifteen Rupees per kilometer (**Rs. 15 per km**),
 - Any motor bicycle - Three Rupees per kilometer (**Rs. 3 per km**),

irrespective of the engine capacity of the vehicle.

- (iii) Where the employer incurs or reimburses any expense in respect of fuel or maintenance of any motor vehicle or motor bicycle owned by the employee, the value of the benefit to the employee is the actual expenditure.
- (iv) If an individual is employed under more than one employer or has more than one employment and receiving any benefit from the private use of a motor vehicle or any allowance paid in lieu of the provision of such vehicle or value of any transport facility from more than one employer or more than one employment, the excess of aggregate of such benefits or allowances or such value over Rs. 50,000/- shall form part of such individual's employment income liable to tax.

(c) Value of the Shares Allotted

“Value” of any benefit accruing to any employee of an employer, from the allotment of any share or awarding an option to acquire any share, to such employee or his nominee, by or on behalf of such employer, means : the excess, if any, of the market value of such share at the time of its allotment (made directly or on exercising an option), or of proceeds from the sale of option, over the price charged by the employer for such allotment or award, as the case may be , such benefit is liable to tax.

(d) Other Benefits

	Nature of benefits	Value of Benefits
1	Provision of Hotel Facilities for expatriates	25% of the cost for first 3 months from the date of arrival in Sri Lanka and 100% thereafter
2	Provision of servants etc.	100% of the cost
3	Provision of Electricity and Gas etc.	100% of the cost
4	Provision of Medical Benefits i. When a block contribution of insurance premiums are made by the employer. ii. When contribution in respect of each employee are separately made by the employer. iii. When bills are paid by the employer	100% of the medical bills reimbursed to the Employee.(at the time of reimbursement) 100% of such contribution 100% of such medical bills.
5	Provision of free meals	100% of the cost
6	Payment of insurance premiums	100% of the cost
7	Payment of telephone bills & annual charges (in respect of phones used for private purposes)	50% of the cost
8	Air tickets (other than those provided to employees of Sri Lankan Air Lines and MIHIN Lanka Air Lines)	100% of the cost
9	Payment of Tax	Amount of Tax paid (see Tax Table 06)

(e) Terminal Benefits

The aggregate of certain once and for all payments other than the sum paid from a provident fund referred to in Section 4(c) (ii) or (iii), received by an employee on the termination of service, by way of retirement or any other manner, is taxed at lower rates if such receipt is under a scheme that uniformly applicable to all employees.

A scheme is uniformly applicable, where the Commissioner General is of the opinion that it is uniformly applicable to all the employees.

Where the payment made by the employer is in accordance with a scheme which is uniformly applicable to all the employees, or where the payment is made out of a Fund to which the employer has made contribution in accordance with a scheme which is uniformly applicable to all the employees, then such a scheme would be a uniform scheme.

The following terminal benefits are liable to tax:

1. Any sum paid in commutation of pension,
2. Retiring Gratuity up to a maximum of:
 - (a) Rs, 1,800,000/- or,
 - (b) The multiple of the average monthly salary or wage during the period of three years immediately preceding his retirement from any employment under the employer who pays such gratuity, multiplied by the number of completed years of service, whichever is greater,

(Any excess over this ceiling should be taxed at normal rates applying Tax Table No 02).

3. Compensation for loss of office or employment,
4. Any sum paid from Employees' Trust Fund (ETF) (excluding the share of any investment income of the fund for the period after 01 April 1987).

Where the employer does not have a uniformly applicable scheme under which such contributions are made, or by which such payments are made, such payments other than compensation for loss of office, should be taxed at normal rates applying Tax Table No. 02.

Any compensation for loss of office paid under a scheme which is not applicable uniformly is taxed at normal rates subject to a maximum of 16% (Please refer the PAYE *Tax Table No. 03*).

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 him/her 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 facility of free transport between the employee's residence and his place of work, by a motor coach provided by an employer,
- (iv.) Benefits from private use of one motor vehicle provided by the employer or the aggregate of any allowance paid in lieu of the provision of such a vehicle and the value of any transport facility as specified by the Commissioner General by order published in the Gazette Extraordinary paid in lieu of the provision of such a vehicle up to Rs. 50,000/- per month. (This exemption is for an individual and not for each and every employment)

- (v.) Cost of passage granted to an expatriate or a member of his family to arrive to Sri Lanka or return to his own country.
- (vi.) The emoluments earned by any resident individual from employment on a ship which is owned/chartered by an off shore company, or deemed as a Sri Lankan ship under the Merchant Shipping Act.
- (vii.) The emoluments earned by an Expert (within the meaning of the Inland Revenue Act) who is not a citizen of Sri Lanka and employed in an undertaking which has entered into an agreement with the Government, being an agreement providing for exemption of emoluments from income tax, or employed in any Strategic Development Project, (Gazetted by BOI) under ***Strategic Development Project Act No 14 of 2008***, if the exemption is provided subject to the fulfillment of conditions specified therein.
- (viii.) The emoluments earned by an **Expert, Scientist, Technician and Adviser** who is not a citizen of Sri Lanka and employed in an undertaking which has entered into an agreement with BOI prior to 31 April 1994 (on an applications made before 11 November 1993) during the exemption period.
- (ix.) Official emoluments arising in Sri Lanka to any non-citizen individual from the participation in any international event conducted in Sri Lanka.
- (x.) Any sum paid from a provident fund approved by the Commissioner General, or from a regulated provident fund, to an employee who retires from service on or after 01 April 2011.

5. Qualifying payment relief for Employees

- (a) where the profits from employment of any individual who is a citizen of Sri Lanka or resident in Sri Lanka other than any retiring gratuity or any sum received in commutation of pension exceeds five hundred thousand rupees, for any year of assessment commencing on or after April 1, 2013, then-
 - (i) such part of such profits in excess of five hundred thousand rupees; or
 - (ii) one hundred thousand rupees,
 whichever is lower;
- (b) In a case of a nonresident individual who is also a non-citizen of Sri Lanka, on such part of official emoluments as does not exceed one hundred thousand rupees for any year of assessment commencing on or after April 1, 2013, arising in Sri Lanka.

can be claimed as qualifying payment relief.

6. PAYE Pay – Sheet (PAYE/T6)

1. Employers must maintain PAYE Pay Sheets on the prescribed form for the purpose of PAYE tax deduction from the employees 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 this requirement, please ensure that prior 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.

(These sheets should be kept by employer with him at least for a period of five years.)

7. Tax Tables for tax deductions under PAYE Scheme

New Tax tables are applicable for the year of assessment 2014/2015 onwards (effective from April 01, 2014).

Tax tables are available in the Inland Revenue Department’s web site www.ird.gov.lk and can be downloaded.

(Tax tables are not applicable for exempt remuneration or any part of exempt remuneration.)

Table No:	Description
01	Monthly tax deduction from regular profits
02	Rates for deduction of tax from Lump-sum-payments
03	Deduction of Tax from Once-and-for –all payments (Terminal Benefits)
04	Rates for the deduction of tax from payment made to Non- citizen Employees in Sri Lanka.
05	Annual Tax Table (Tax deductible on cumulative income)
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 (which means from the 2 nd employment).

Deduction of tax from remuneration should be made by applying the appropriate tax table. Please consult **an Assistant Commissioner (PAYE Branch or the relevant Unit)** in case of any doubt in the application of these tax tables. Please contact **Commissioner (Secretariat)** for extra tax tables on lump sum payments, if necessary.

How to apply Tax Tables

(i.) An employee (resident or citizen of Sri Lanka) who receives a total remuneration exceeding Rs. 50,000/- per month or Rs. 600,000/- per annum is liable to pay income tax. Please apply **Tax Table No. 01** for regular profits from employment. When lump sum payments are made apply **Tax Table 02** even though the monthly salary is less than Rs. 50,000/-.

(ii.) Marginally liable cases

Though any employee’s monthly salary (inclusive of non-cash benefits) is below the above limit, if the cumulative profits from employment exceeds the tax free amount of Rs. 600,000/- during the year of assessment as a result of receipt of increments etc., then apply the Tax Table No 05.

(iii.) A Non-citizen who is employed in Sri Lanka is also liable to tax in Sri Lanka (*Please refer to Tax Table No. 04*)

(iv.) Normal tax tables are applicable only in respect of the income from the main employer. Hence, in the case of an individual employed under more than one employer, apply **Tax Table No. 07** on the remuneration received from the second employment.

- (v.) The tax deducted from employment income is treated as final if the employee concerned has no any other income which is not treated as final subject to WHT at source. Tax paid on employment income will not be refunded or any direction will not be issued.

Concessionary tax rate on employment income of employed professionals -

- (1) The relevant provision of the law is set out below :

As provided in Section 40C of the Inland Revenue Act,

“ Where the taxable income of any individual, being a citizen of Sri Lanka, for any year of assessment commencing on or after April 1, 2014, includes any profits from employment (hereinafter in this section referred to as “relevant profits”) in the exercise of his duties as a professional, and the rate of income tax payable on a part of such taxable income (hereinafter in this section referred to as the “relevant part of the taxable income”) exceeds sixteen per centum,

For the purpose of this section “professional” means a doctor registered under the Medical Ordinance (Chapter 105), a chartered engineer, a chartered architect, a member of the Institute of Chartered Accountants of Sri Lanka, a member of the Association of Chartered Certified Accountants, a member of the Chartered Institute of Management Accountants (U.K.) and an attorney-at-law, and includes a software engineer, a pilot licensed under the Air Navigation Act (Chapter 365), a navigation officer and a researcher or senior academic, recognized as an accredited professional”.

- (2) The reason for the introduction of the concessionary rate is to provide the same concession available to professionals who could practice on his/her own for those who practice as an employee too. As such, the basic approach is that the service provider on his own exercise the duties as a professional but not through holding an executive job based on the professional qualification.
- (3) On that basis :
- (i) If such professional provides his/her service only as a Chief Executive Officer (CEO), Administrator or Manager, then as he/she does not exercise duties as a professional in such profession. Hence he/she is not considered as a professional for the purpose of this section. E.g.: A Chartered Accountant or an Attorney-at-Law employed as head of Human Resource Division, A Doctor employed as Chief Medical Officer in a Hospital and not exercises duties as a professional Doctor, a Doctor employed as a General Manager or Administrator of any private hospital or of such institution, A Chartered Architect or Chartered Engineer employed as a Project Director or Project Manager where exercises duties mainly as a manager or administrator, etc.
 - (ii) In case where, such professional exercise duties as a sectional head in a specific Section, Division or a Department which deals with activities mainly connected with such profession, then he/she qualifies to be considered as a professional for the purpose of this section. E.g.: A Chartered Accountant employed as a head of Finance Section, An Attorney-at-Law employed as a head of Recoveries Division which deals with litigation activities in a Financial Institution, etc. (This may partially include administrative functions as well , however, the main functions are relating to the exercising of the profession).

(4) The issues relating to following categories of employees, due to their specific job description should be dealt with in the following manner:

(i) **Software Engineer:-** if an individual is employed under the designation “Software Engineer” (may be the designation is different from the title “software engineer” but the functions are similar) who possess such qualification required for such a post, he/she is entitled to be considered as a professional for the purpose of this section. However, hardware engineers in the ICT field are not entitled to be considered as professional for the purpose of this section unless he is a chartered engineer qualified under that category).

(ii) **Researcher or senior academic, recognized as an accredited professional:** - For the purpose of this section such professional employee should be a researcher attached to a University or a recognized research institution which is established only for the purpose of carrying on researches. Senior academic should be a University professor or a senior academic recognized as an accredited professional attached to a recognized University or professional institution.

(iii) **Navigation officer:-**

For the purpose of this section both marine engineers and deck officers are treated as navigation officers.

(iv) The concessionary rate should be applied only for professionals referred to in Section 40C. For clarity, it is mentioned that the other professions such as Insurance, Banking, Marketing, and Human Resource etc. are not covered by the Section 40C.

The employer is required to follow these instructions in determining the eligibility of any professional for granting the concession; the advice may be obtained from the Secretariat of the Inland Revenue Department by giving relevant information in writing with regard to any other specific circumstances which does not cover in this circular.

8. 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 that month.
- (ii.) PAYE payments (*Other than the retained tax payment related to terminal benefits*) of private sector to be made to **any branch of Bank of Ceylon**, using specified remittance forms issued by the Data Processing and Revenue Accounting Unit of the Inland Revenue Department (DPRAU)
- (iii.) Employers are required to read the instructions on the overleaf of the remittance forms.
- (iv.) Employers should keep the third copy of the remittance form after making the payments.

9. Remittance of retained taxes on terminal benefits

(i.) **Employee Trust Fund (ETF)**

- (a) Full sum may be released if the total amount (excluding share of investment income after 31st March 1987) lying to the credit of employee does not exceed Rs. 1,000,000/- where the period of service or contribution is less than 20 years. In case it exceeds Rs. 1,000,000/- 10% of the amount payable should be retained.

- (b) Full sum may be released if the total amount (excluding share of investment income after 31st March 1987) lying to the credit of employee does not exceed Rs. 1,500,000 where the period of service or contribution is not less than 20 years. In the case it exceeds Rs. 1,500,000/- 10% of the amount payable should be retained

(ii.) **Gratuity, Commuted Pension or any other payment**

- (a) Paid through a scheme which is uniformly applicable to all the employees - Retain 10% of the payment if it exceeds Rs. 1,000,000/- where the period of service is less than 20 years.
- (b) Paid through a scheme which is uniformly applicable to all the employees - Retain 10% of the payment if it exceeds Rs. 1,500,000/- where the period of service is equal or more than 20 years.
- (c) If the scheme of payment is not uniform – Retain 16% of the sum payable as this sum would not be treated as a terminal benefit.
- (d) Any other payments (other than compensation for loss of office paid under a non – uniform scheme) Retain 16% of the sum payable.
- (e) Compensation for loss of office paid under a non-uniform scheme – retain tax at 16%.

(iii.) **Compensation – on Voluntary Retirement and Retrenchment**

(a) **Voluntary Retirement**

If paid under a scheme which is in the opinion of the Commissioner General of Inland Revenue is uniformly applicable to all employees.

If the confirmation is obtained from PAYE Branch:

- Up to Rs. 2,000,000/- exempt

Retain 10% of the balance amount (If confirmation is not obtained, 10% of the total amount should be retained)

(b) **Retrenchment**

If paid in accordance with a scheme approved by the Commissioner of labour:

- Up to Rs. 2,000,000/- exempt.
- Retain 16% of the balance amount

Retained sum would be released after obtaining a **clearance certificate** from the **PAYE Branch**, Department of Inland Revenue.

Where no clearance has been received, the retained sum should be remitted to the Department of Inland Revenue not later than 03 months from the date of termination.

Please remit, all sums retained to *A/C No. 014-1-001-4-0110422 Peoples Bank, Union Place Branch, Colombo 02*, using remittance forms issued by PAYE Branch. **{Please do not write Taxpayer identification Number (TIN) on the Remittance forms}**. Leave the space provided for file Number blank. Please write **‘Tax on once and for all Payments’** in the space provided for ‘Type of Tax;

Forward a Schedule of such payments in the following format along with copies of Remittance forms to PAYE Branch.

Name of Employee	Date of Retention of Tax	Amount LKR	Date of Payment

.....
Employer's Name

.....
Signature of the Employer / Authorized Officer

10. Furnishing the annual Declaration {PAYE 94(1) and PAYE / T-9A Schedule}

- (a) Annual Declaration (PAYE 94(1) and PAYE / T-9A Schedule) should be furnished to DPRA Unit **not later than the 30th of April every year.**

Employers are required to submit soft copies of annual declaration, Form T-9A and Form T-9A(A) . Those forms can be downloaded from the Inland Revenue web site www.ird.gov.lk

Please ensure that an acknowledgement card for the annual declaration is received from the Department.

However, where the employer has ceased the business, declaration should be furnished within one month.

N.B. Those employers who fail to send their annual declaration as required by section 120(d) of the Inland Revenue Act No. 10 of 2006 are subjected to initiate legal action or imposition of penalties up to a maximum of Rs. 50,000/- for failure to furnish the annual declaration on or before the due date.

(b) Issuing assessments on employers

- (i.) It shall be lawful to issue assessment or additional assessment whenever employer fails to:
- (a) deduct the whole or any part of the income tax under PAYE scheme,
 - (b) remit to the Commissioner-General the whole or any part of the income tax deducted,
 - (c) fails to furnish any monthly or annual declaration.

(c) Penalty for failure to make payments

- (i.) The employer is liable to pay a penalty equal to 10% of the tax in default in addition to such tax and,
- (ii.) Further penalty of a sum equivalent to 2% of the tax in default in respect of each further period of 30 days or part thereof, during which it remains in default.

- (d) The employer is personally held responsible for tax and penalty imposed on him by way of an assessment.

(e) Such sum could be recovered from the employer as per Chapter XXVI of the Inland Revenue Act.

(f) Personal liability of Employers

Employers are held responsible for recover 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.

11. Certificate of tax deduction {PAYE / T-10(New) and PAYE / T-10(New)D}

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 terminates the 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 income 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 income tax so paid)
- (iii.) Total gross remuneration should be as per PAYE pay sheet (T-6)

12. Overpayments of Tax by Employer

In terms of section 121 of Inland Revenue Act

- (i.) Where, an employer has remitted to the Commissioner General in respect of any pay period, any sum in excess of the amount deducted, the employer may deduct such excess payment from the remittance in respect of any subsequent pay period in that year of assessment, and notify the Commissioner-General accordingly.
- (ii.) An employer has deducted income tax from the remuneration of any employee for any pay period any sum in excess of the amount deductible in respect of such remuneration for such pay period, such employer may reduce such excess from the amount of income tax deductible in respect of the remuneration of such employee for any pay period in such year of assessment or in the immediately succeeding year of assessment and notify the Commissioner General accordingly within two weeks from the date of such adjustment.
- (iii.) Where it is proved to the satisfaction of the Commissioner General by a claim made in writing by any employer within three years of the end of a year of assessment, that he has paid PAYE taxes for that year of assessment, a sum in excess of the amount which he should have to be paid for that year of assessment, **such employer shall be entitled to a refund of the amount paid in excess**

If the payment of income tax has been made on an assessment made on an employer, above refund shall not apply.

13. Further Instruction and Information Regarding PAYE Scheme

These instructions are meant to guide the employers to deduct amount of tax from employees. However, if there is any inconsistency between the provisions of the Inland Revenue Act and these instructions, the provisions of the Act shall apply.

All the employers registered for PAYE scheme are kindly requested to submit an electronic version of Employer's Annual Declaration, T-9A and T-9A(A) forms to the e-mail address of paye9a@ird.gov.lk since the Department has planned to computerized PAYE Declarations.

Further details, Tax Tables and the electronic version of the relevant forms can be downloaded from www.ird.gov.lk

For any further clarification please contact the Commissioner PAYE Branch.

Telephone 011-2302246

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