

The Inland Revenue Act No 24 of 2017 will be amended with the following amendments announced by the Finance Ministry. However, these changes introduced in the proposed Inland Revenue Amendment Bill which is to be presented to Parliament for approval. **Moore Aiyar** Tax Alert gives you a summary of the amendments proposed to the income tax law.

INDIVIDUAL INCOME TAX

Tax Free Allowance and Tax Rates

- Income of an individual up to Rs. 3,000,000/- per annum shall be exempt from income tax with effect from January 01, 2020.
- Balance Income will be taxed at 6%, 12% and 18% of progressive rates on tax slabs of Rs. 3,000,000/- per annum with effect from January 01, 2020.

Employment Income (PAYE Tax)

- **PAYE tax will be removed with effect from April 01, 2020 and the income will form part of the Assessable Income.**
- **However, the employment income will be subjected to taxed at 6%, 12% and 18% for the period from January to March 2020.**

Up to December 31, 2019, the tax free allowance of Rs. 500,000/- remain unchanged and the balance will be taxed at 4%, 8%, 12%, 16%, 20% and 24% on tax slabs of Rs. 600,000/-.

Terminal Benefits

Income tax rate applicable on the terminal benefits is revised with effect from January 01, 2020, as follows,

- First Rs. 10,000,000/- — Exempt
- Next Rs. 10,000,000 — 6%
- Balance — 12%

BUSINESS INCOME

Tax Rates

Corporate Income Tax Rate will be revised, with effect from April 01, 2020, as follows: -

- Exports, Tourism, Education, Medicare, Construction, and Agro-processing- 14%
- Manufacturing -18%
- Liquor & Tobacco-28%
- Betting and Gaming- 28%
- Trading, Banking, Finance, Insurance, etc.-24%

NOTE: For the Y/A 2019/2020, Manufacture & sale or import & sale of any liquor or tobacco product will be subjected to tax at 40%.

For the Y/A 2019/2020 local buying and selling of any liquor or tobacco product will be taxed at normal rate, applicable to individuals and companies.

WITHHOLDING TAX (WHT)

- **Interest income shall not be subjected to WHT with effect from April 01, 2020.**

However, interest income will form part of the Assessable Income and taxed at normal rates.

- **WHT on specified fees, paid to residents will be removed with effect from January 01, 2020.**
- **WHT on dividend, charge, natural resource payment, rent, royalty, premium or retirement payments made to residents will be removed with effect from April 01, 2020.**

However, such income will form part of the Assessable Income and taxed at normal rates.

- **WHT on Partners' share will be removed with effect from April 01, 2020**

PARTNERSHIP TAX

- **Income from Partnerships will be liable to tax at the rate of 6% with effect from April, 01 2020.**
- **Taxable income of a partnership up to Rs. 1,000,000/- per annum, will be exempt from income tax.**

EXEMPTIONS

- Profits and income earned by any person from farming including agriculture, fish and livestock farming is exempt from income tax with effect from April 01, 2019.
- Profits and income earned from providing Information Technology and enabling services is exempt from income tax, with effect from January 01, 2020.

The enabling services will be prescribed by regulations by the Minister in charge of the subject of Finance.

- Profits and income earned in foreign currency from services rendered to persons outside Sri Lanka, and if such payments received through a bank in Sri Lanka, is exempt from income tax, with effect from January 01, 2020
- Interest income earned on NRFC and RFC accounts will be exempted from income tax with effect from April 01, 2020.
- Interest paid on loans obtained from any person outside Sri Lanka is exempt from income tax, with effect from April 1, 2018.
- Interest or discount paid or allowed to any person on Sovereign Bonds denominated in foreign currency, is exempt from income tax, with effect from April 1, 2018.
- Any income earned by any non-resident person on any Sovereign Bond denominated in foreign or local currency, is exempt from income tax, with effect from April 1, 2018.
- Dividends paid by a resident company to any non-resident person will be exempted from income tax with effect from April 01, 2020.
- Amounts derived by any non-resident person from laboratory services or standards certification services will be exempted from income tax, with effect from April 01, 2020.
- Amounts received by any religious institution by way of grants and donations will be exempted from income tax, with effect from April 01, 2020.

- Funds received by any Public Corporation out of the funds voted by Parliament from the Consolidated Fund or out of any loan arranged through the Government, with effect from April 1, 2018.

QUALIFYING PAYMENTS

- Payments made to consolidated Fund by any Public Corporation is deductible in calculating income tax of such corporation, with effect from April 01, 2019.

Qualifying Payments for Individuals

Following payment are deductible subjected to maxim of Rs.100,000/- per month or Rs.1,200,000/- per annum with effect from April 01, 2020.

- Health expenditure including contributions to Medical Insurance.
- Educational expenditure incurred locally.
- Payment of interest on housing loans.
- Contribution to an approved pension scheme.
- Expenditure incurred for the purchase of equity or security.

KEY CONTACT

For any assistance or clarification relating to information contained in this publication, you may please contact any of the following persons;

Mr. Joseph Jayaseelan

Partner – Tax Advisory Services.

Phone : +94-11-2505516/17

Fax : +94-11-2505518

Mobile : +94-77-7755203

E-mail : joseph@moorestephens.lk

Ms. P. Ariyadurai

Tax Manageress

Phone : +94-11-2505516/17

Fax : +94-11-2505518

E-mail : aiyar@moorestephens.lk

Ms. Buddhika Samanthi

Assistant Tax Manageress

E-mail : tax@moorestephens.lk

Fax : +94-11-2505518

Phone : +94-11-2505516/17

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