

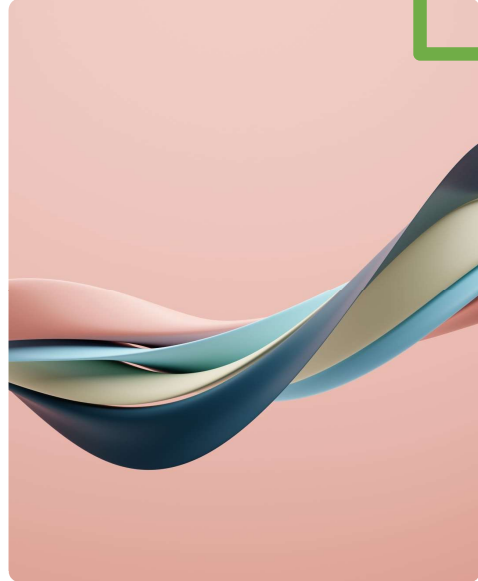
Strategic Level – CA Sri Lanka

Strategic Tax Planning (SL 25 - 4) – Tutorial 4 Assessable Income form Other Source and Taxable Income

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Assessable Income form Other Source

- A person's income from other sources for a year of assessment shall be that person's gains and profits from **any source whatsoever for the year**, not including profits of a **casual and non-recurring nature**.
[Sec 08]
- In calculating a person's gains or profits from any source whatsoever, the following shall be excluded:-
 - (a) exempt amounts and final withholding payments; and
 - (b) amounts that are included in calculating the person's income from an employment, business or investment.

Assessable Income form Other Source

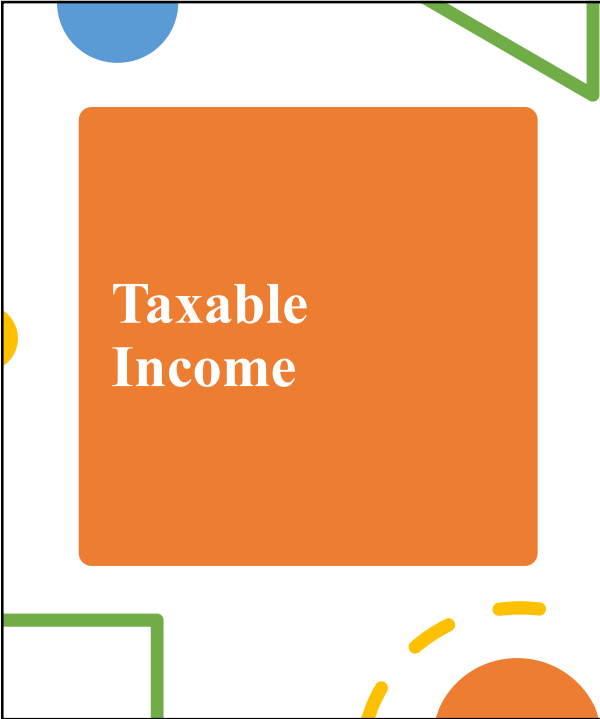
What is the nature of casual income?

- In the context of income tax, refers to **unexpected gains**. It includes things like **game show prizes**, crossword puzzles, prizes winning from knowledge competition or other similar windfalls.
- Nature of this type of gains are unexpected (games of chance)
- Casual income represents an **extra financial boost** that cannot be relied upon as a steady stream of revenue. It's a **one-time occurrence**, defying established patterns or distributions.

Assessable Income form Other Source

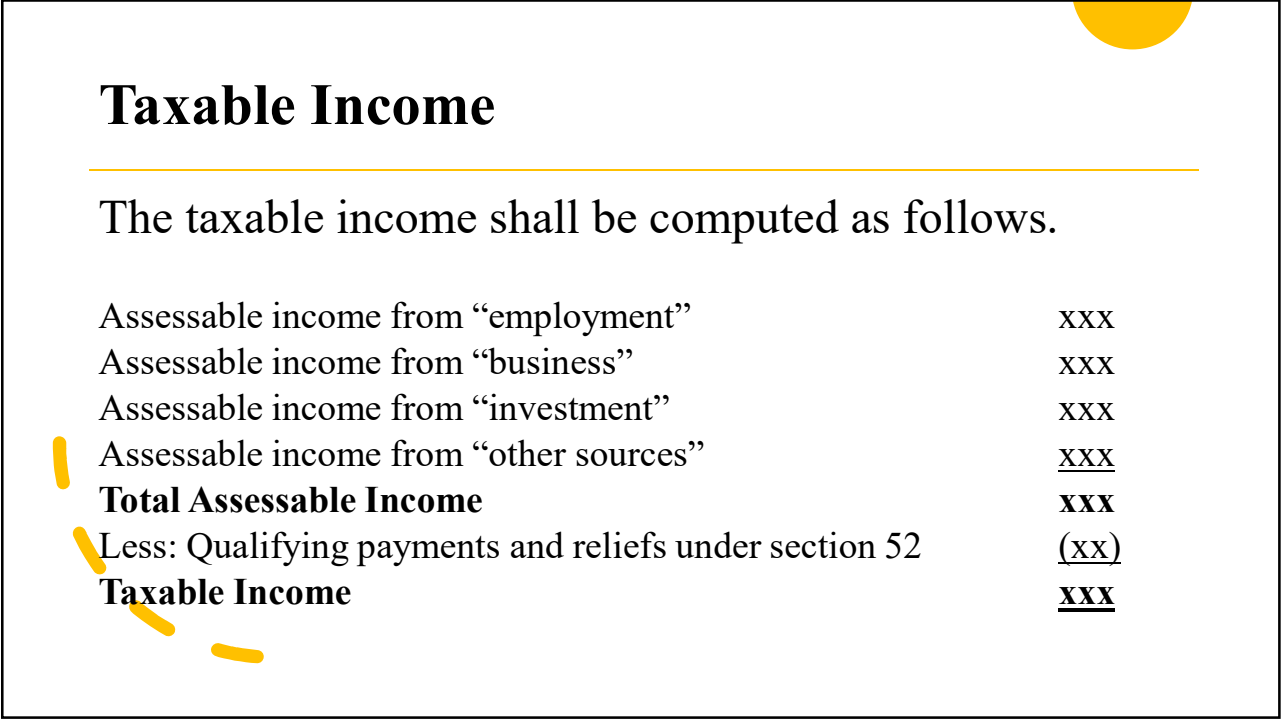
What is the nature of non-recurring income?

- Non- recurring incomes are gains that are neither part of ongoing core operations nor an accurate reflection of future performance. Ex. Compensation for victims who adversely affected by war.



Taxable Income

- The taxable income of a person for a year of assessment shall be equal to the total of the person's assessable income for the year from each employment, business, investment and other sources [Sec 3 - Subject to subsection (2)]
- In arriving at taxable income of a year of assessment **qualifying payments and reliefs** for that year under section 52 shall be deducted. [Sec 3 (2)]
- The taxable income of each person shall be determined separately.



Taxable Income

The taxable income shall be computed as follows.

Assessable income from "employment"	xxx
Assessable income from "business"	xxx
Assessable income from "investment"	xxx
Assessable income from "other sources"	<u>xxx</u>
Total Assessable Income	xxx
Less: Qualifying payments and reliefs under section 52	<u>(xx)</u>
Taxable Income	<u>xxx</u>

Taxable Income

Income

- What is the Source
- Employment, Business, Investment or other

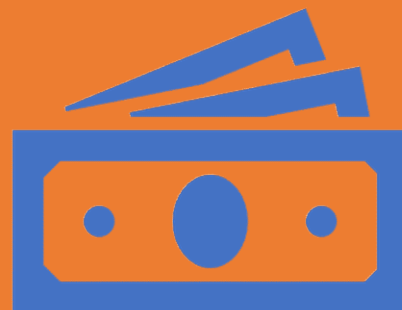
Assessable Income

- Excluded - as per the respective Section (source)
- Exempted - as per 03rd Schedule
- Final Withholding payment – as per Sec 88

Taxable Income

- Qualifying payment
- Relief

**Exempted
amount – Sec 9
and Third
schedule
[Year 2025/26]**



Exempted amount

Sec 09

- (1) The amounts referred to in the Third Schedule to the Act shall be exempt from the payment of tax.
- (2) Notwithstanding any law to the contrary, an exemption of any person or amount from tax imposed by the Act shall not be provided and an agreement that affects or purports to affect the application of the Act shall not be entered into, except as provided for in the Act. (e.g. Exemption granted under the BOI Law)
- (3) Subsection (2) shall not apply to a provision in another law or an agreement that is in force on date of commencement of this Act or for any projects approved under the Strategic Development Projects Act, No. 14 of 2008.

Third schedule - Exempted amount

- I. Amounts derived by –
 - i. The Government of Sri Lanka or a local authority, including any Government department;
 - ii. The Central Bank of Sri Lanka, including the Monetary Board;
 - iii. Any University which is established or deemed to be established under the Universities Act, No. 16 of 1978 or the Buddhist and Pali University of Sri Lanka Act, No. 74 of 1981;
 - iv. Any Government assisted private school other than that incorporated under the Companies Act, No. 7 of 2007 which is registered with the Ministry of Education and mandated to follow the Circulars and mandated to follow the Circulars issued by Government and the Ministry of Education;
 - v. Any registered society within the meaning of the Cooperative Societies Law, No. 5 of 1972;

Third schedule - Exempted amount

- vi. The Government of a foreign country of foreign territory to the extent specified under a diplomatic immunities law or a similar law;
 - vii. An international organisation to the extent specified under a diplomatic immunities law or a similar law or an agreement between the organisation and the Government of Sri Lanka, provided that the exemption provided under the agreement shall be broader than that provided under diplomatic immunities law or a similar law;
- 2. The income of an individual entitled to privileges to the extent provided for by
 - i. a diplomatic immunities law or a similar law;
 - ii. an Act giving effect to the Convention on the Privileges and Immunities of the United Nations and the Convention on the Privileges and Immunities of the Specialised Agencies of the United Nations; or
 - iii. regulations made under this Act relating to an international organisation, or a law or Act referred to in subparagraph (i) or (ii);
- 3. Any religious institution which is registered with the Ministry in charge of the subject of religious affairs, by way of grants or donations

Employment Income - Exempted amount

- 1. Capital sums paid to a person as compensation or a gratuity in relation to
 - i. Personal injuries suffered by the person; or
 - ii. The death of another person;
- 2. The pension of a person where the pension income is paid by the Government of Sri Lanka or a department of the Government of Sri Lanka;
- 3. An amount paid to an employee at the time of retirement from—
 - i. any pension fund or the Employees Trust Fund established by the Employees Trust Fund Act, No.46 of 1980, as represents income derived by that fund, for any period commencing on or after April 1, 1987, from investments made by it;
 - ii. a provident fund approved by the Commissioner General or a regulated provident fund;
- 4. Benefits received or derived by an employee of the government of Sri Lanka from a road vehicle permit issued to that employee;

Business Income - Exempted amount

1. Any amount derived, by any non-resident person as any payment for air craft, software licences or as for other related services from the Sri Lankan Airlines Limited
2. Amounts derived by a non-resident person from engaging in a project of the Government of Sri Lanka, if such project is approved by the Minister taking into consideration the economic benefits to the country, and is totally funded from foreign grants.
3. Any amount a non-resident person from laboratory services or standards certification services.

Business Income - Exempted amount

5. Gains and profits received or derived from business (other than any gains from the realisation of capital assets and liabilities of the business) by a person from following any new undertaking (which is not formed by splitting-up or re-construction of an existing undertaking) commenced on or after April 1, 2021, **but prior to April 1, 2023**, for that period, subject to the conditions contained herein; **[business shall be already commenced prior to prior to April 1, 2023]**
 - i. an undertaking which is involved in the sale of construction materials recycled in a selected separate site established in Sri Lanka to recycle the materials which were already used in the construction industry, (a person who is involved in the provision of construction services using construction materials recycled by him from a site with the same conditions, in the provision of such services provided by him shall be deemed to have sold such materials for the construction service at a market price prevailing at the time of such deemed sale), for a period of ten years

Business Income - Exempted amount

- ii. an individual after successful completion of vocational education from any Vocational Education Institution which is standardized under Technical and Vocational Education and Training concept (TVET concept) and regulated by the Tertiary and Vocational Education Commission, for a period of five years;
- iii. an undertaking commenced by a resident person for the purpose of manufacturing of boats or ships in Sri Lanka and received or derived any gains and profits from the supply of such boats or ships, for a period of seven years
- iv. any renewable energy project established with a capacity to produce not less than one hundred Mega Watts of solar or wind power and supplied such power to the national grid, for a period of seven years

Business Income - Exempted amount

- v. any resident person who constructs and installs communication towers and related appliances using local labour and local raw materials in Sri Lanka or provides required technical services for such construction or installation, for a period of five years.

Tax exemption periods provided in the above shall be reckoned from the year of assessment in which the undertaking commences to make profits (assessable income from such business) from transactions entered into in that year of assessment or from the commencement of the year of assessment immediately succeeding the year of assessment in which the undertaking completes a period of two years reckoned from the date on which the undertaking commences to carry on commercial operations, whichever occurs earlier

- 6. Gains and profits received or derived by an authorised person carrying on a Business of Strategic Importance as approved under the provisions of the Colombo Port City Economic Commission Act, and the employment income of an employee employed of that Act, up to the extent provided for in that Act for each year of assessment

Investment Income - Exempted amount

1. Gain made on realisation of an asset consisting of shares quoted in any official list published by any stock exchange licensed by the Securities and Exchange Commission of Sri Lanka [Disposal gain on quoted shares].
2. Interest accruing to or derived by-
 - i. any person outside Sri Lanka on any loan granted to any person in Sri Lanka or to the Government of Sri Lanka by such person [Interest to a non-resident person on loan given to Sri Lanka and interest to non-resident on investment on Treasury bills/Bonds]
 - ii. any person on moneys lying to his credit in foreign currency in any foreign currency account opened by him or on his behalf, in any commercial bank or in any specialized bank, with the approval of the Central Bank of Sri Lanka [Interest on deposit or accounts maintained in bank or financial institution in foreign currency]
 - iii. any person from a term deposit account titled as "Special Deposit Account" opened and maintained with an authorized dealer in Sri Lanka, (excluding the subsequently renewed accounts), either in any designated foreign currency or in Sri Lanka Rupees.
 - iv. any welfare society [shall not be a partnership or a company]
 - v. any multi-national company on any deposit opened and maintained in foreign currency in any domestic bank, if such deposit is maintained to cover its import expenditure

Investment Income - Exempted amount

3. Any prize received by a person as an award made by the President of the Republic of Sri Lanka or by the Government in recognition of an invention created, or any research undertaken, by such person.
4. Any sum received by any person from the President's Fund
5. any income earned by
 - i. any non-resident person other than a Sri Lankan permanent establishment by way of interest, discount or realization of any gain on any sovereign bond denominated in local or foreign currency
 - ii. any person by way of interest or discount paid or allowed, as the case may be, on any sovereign bond denominated in foreign currency, including Sri Lanka Development Bonds

Investment Income - Exempted amount

6. Gain from the realisation of international sovereign bonds issued by or on behalf of the Government of Sri Lanka and received or derived by a commercial bank or authorized dealer who made an aggregate investment not less than USD 100 million in such bonds.
7. Interest or discount accrued or derived by any Samurdhi community-based banks from security or treasury bonds
8. Any amount derived by a senior citizen from an annuity for life for a period of not less than ten years purchased from a bank or an insurance company.
9. Any winning from a lottery, the gross amount of which does not exceed Rs. 500,000/-

Investment Income - Exempted amount

10. Dividend paid by a resident company which is engaged in any one or more of the following businesses in accordance with the provisions the **Finance Act**, No. 12 of 2012 **and** which has **entered into an agreement with the Board of Investment of Sri Lanka** [Hub –operations]
 - i. entrepot trade involving import, minor processing and re-export
 - ii. offshore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing the same into Sri Lanka
 - iii. providing front-end services to clients abroad
 - iv. headquarters operations of leading buyers for management of financial supply chain and billing operation
 - v. logistics services including bonded warehouse or multi-country consolidation in Sri Lanka

Investment Income - Exempted amount

11. Dividend paid to a member to the extent that such dividend payment is attributable to, or derived from, another dividend received by that resident company or another resident company [Dividend payment by a resident company out of dividend income].
12. Dividends from and gains on the realisation of shares in a non-resident company where derived by any person with respect to a **substantial participation** in the non-resident company.

“**substantial participation**” means, holding 10% or more of the value of shares in the company, excluding redeemable shares; together with control, either directly or indirectly, of 10 percent or more of the voting power in the company;

Investment Income - Exempted amount

11. Any amount derived by a person from the sale of any gem on which tax has been deducted – WHT 2.5%
12. Interest accruing to or derived by a charitable institution, where it is proved to the satisfaction of the Commissioner-General that such interest is applied solely for the purpose of providing care to children, the elderly or the disabled in a home maintained by such charitable institution

Investment Income - Exempted amount

13. A gain made by a resident individual on the realisation of the individual's principal place of residence, provided it has been owned by the individual continuously for the three years before being realised and lived in by the individual for at least two of those three years (calculated on a daily basis)
14. A gain made by a resident individual from the realisation of an investment asset that does not exceed Rs. 50,000 and where the total gains made by the resident individual from the realisation of investment assets in the year of assessment do not exceed Rs. 600,000,

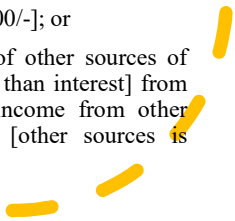
**Final
Withholding
payment
[Year 2025/26]**

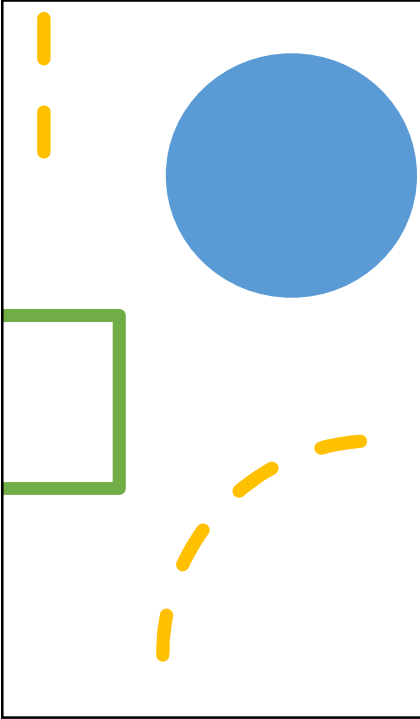


Final Withholding payment

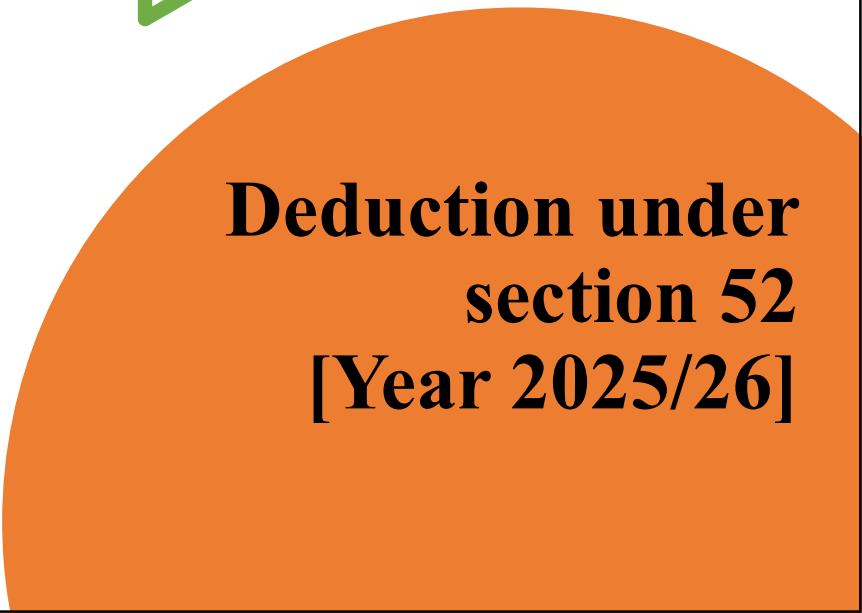
1. Amounts paid as winnings from a lottery, reward, betting or gambling, other than amounts received in conducting a business consisting of betting and gaming - [AIT -14%]
2. Dividends paid by a resident company – [AIT 15%]
3. Payments made to a non-resident person who is not a citizen of Sri Lanka or to a nonresident entity [other than payments derived through a Sri Lankan Permanent Establishment] – [WHT 14%]
4. Interest paid to or treated as being derived by a non-resident individual who is a citizen of Sri Lanka – [AIT 10%]

Provided however, the following interest amounts shall not be deemed as final withholding payments to such non-resident individual who is a citizen of Sri Lanka: -

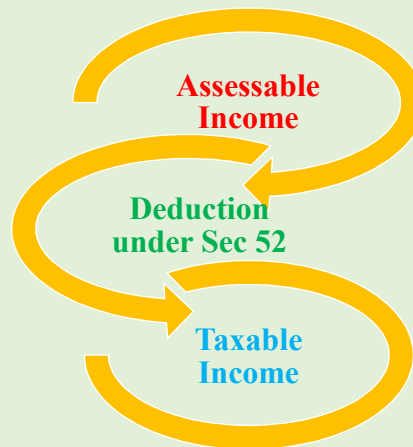
- i. such amount of interest paid and falling within the relief threshold [Interest income is currently less than Rs. 1,800,000/-]; or
 - ii. such amount calculated by deducting the total of other sources of assessable income [total assessable income other than interest] from the relief threshold if the total of assessable income from other sources does not exceed the relief threshold [other sources is currently less than Rs. 1,800,000/-]
- 



Deduction under section 52 [Year 2025/26]



Assessable Income Vs Taxable Income



Deduction under Section 52

- ✓ In arriving at the taxable income of **an individual or entity** for a year of assessment, the aggregate qualifying payments referred to in the Fifth Schedule to the Act shall be deducted [**Sec 52 (1)**]
- ✓ In arriving at the taxable income of **an individual** who is resident in Sri Lanka for a year of assessment, the aggregate reliefs referred to in the Fifth Schedule to the Act shall be deducted [**Sec 52 (2)**]
- ✓ In arriving at the taxable income of an individual who is not resident in Sri Lanka for a year of assessment but is a citizen of Sri Lanka , the relief referred to in paragraph 2(a) of the Fifth Schedule to the Act shall be deducted [**Sec 52 (3)**]

Deduction under Section 52

In arriving at the taxable income of an individual or entity for a year of assessment, the aggregate qualifying payments referred to in the Fifth Schedule to this Act shall be deducted [Sec 52 (1)]

➤Qualifying payments [Sec 52 (1)]

1. **Donation** made by an Individual or entity in money to an approved charitable institution that is:

- a charitable institution established for the **provision of institutionalized care for the sick or the needy**; and
- **declared by the Minister as an approved charitable institution**
- Deduction can be made, subject to a **maximum of** ;
 - (i) in the case of an individual, **one-third of the taxable income** of the individual or **Rupees Seventy-Five thousand**, whichever is less
 - (ii) in the case of an entity, **one-fifth of the taxable income** of the entity or **Rupees Five hundred thousand**, whichever is less

Deduction under Section 52

➤Qualifying payments [Contd..]

2. Donation made by **an individual or entity** in **money or otherwise** to the following

- i. the Government of Sri Lanka
- ii. a local authority
- iii. any Higher Education Institution established or deemed to be established under the Universities Act
- iv. the Buddhist and Pali University of Sri Lanka or any Higher Educational Institution established by or under the Buddhist and Pali University of Sri Lanka Act
- v. fund established by the Government of Sri Lanka
- vi. a fund established by a local authority and approved by the Minister;
- vii. the Sevana Fund created and administered by the National Housing Development Authority;
- viii. a fund established by a Provincial Council and approved by the Minister
- ix. the Api Wenuwen Api Fund
- x. National Kidney Fund

Deduction under Section 52

➤Qualifying payments [Contd..]

3. Contribution made by a resident individual in money or otherwise to establish a shop for a female individual who is from a Samurdhi beneficiary family as recommended and confirmed by the Department of Samurdhi Development.
 4. Expenditure incurred, by any person-
 - i. in the production of a **film** at a cost of (including promotional expenditure of such film) **not less than five million rupees**;
 - ii. in the construction and equipping of a **new cinema** at a cost of **not exceeding twenty-five million rupees**;
 - iii. in the **upgrading of a cinema** at a cost of **not exceeding ten million rupees**:
- Provided that, the deduction shall be restricted to **one third of the taxable income** of the year of assessment, and any amount which is not deducted in current year may be carried forward and deducted in the next succeeding year and so on, subject to the same limitation.
 - "film" means any audio-visual presentation of the moving image produced to be exhibited by projection on a screen in a cinema; and
 - the expenditure on construction and equipping or upgrading a cinema shall be certified by the National Film Corporation of Sri Lanka

Deduction under Section 52

In arriving at the taxable income of **an individual** who is **resident in Sri Lanka** for a year of assessment, the aggregate reliefs referred to in the Fifth Schedule to the Act shall be deducted [**Sec 52 (2)**]

➤Reliefs [Sec 52 (2)]

- i. **Relief up to Rs. 1,800,000, for a year of assessment - Personal Relief for Resident Individual**
 - ❖ a trustee, receiver, executor or liquidator shall not be entitled to deduct the personal relief
 - ❖ the relief shall not be deducted against gains from the realisation of investment assets
- ii. **an individual with rental income from an investment asset**, an amount equal to **25 percent** of the total rental income for the year of assessment, being a relief for the **repair, maintenance, and depreciation** relating to the investment asset, but shall only be allowed to the extent **no deduction or cost is claimed for any actual expenditures** incurred by the taxpayer for the repair, maintenance, and depreciation of the investment asset – **Rental relief for Resident Individual**

Deduction under Section 52

➤Reliefs [Contd..]

- i. **an individual** who has acquired **solar panels to fix on his premises** and **connected to the national grid**, Rs. 600,000 for each year of assessment, **up to the total expenditure** on such solar panels or up to the amounts paid to a bank in respect of any loan obtained acquire such solar panels – **Solar panels relief for Resident Individual**

Taxable Income

The taxable income shall be computed as follows.

Assessable income from “employment”	xxx
Assessable income from “business”	xxx
Assessable income from “investment”	xxx
Assessable income from “other sources”	<u>xxx</u>
Total Assessable Income	xxx
Less: Qualifying payments and reliefs under section 52	<u>(xx)</u>
Taxable Income	<u>xxx</u>