

# Introduction to Income Tax

Lahiru Karunaratna

## Chapter Contents

- What is Income Tax.
- Law governing the income tax in Sri Lanka and the relevant tax authority.
- Imposition of income Tax.
- Residence rule in taxation.
- Sources of Income.

## **What is Income Tax ?**

Income tax is a tax imposed by the government on the taxable income.

### **Who is the relevant tax authority for Income Tax in Sri Lanka?**

Department of Inland Revenue

### **What is the enforcing legislation for Income Tax in Sri Lanka?**

INLAND REVENUE ACT, No. 24 OF 2017

Lahiru Karunaratna

3

## **Imposition of Income Tax (Section 2)**

### **Who is liable for income tax?**

Income tax shall be payable for each year of assessment by –

- a person who has a taxable income for that year : or
- a person who received a final withholding payment during that year. (Section 2.1)

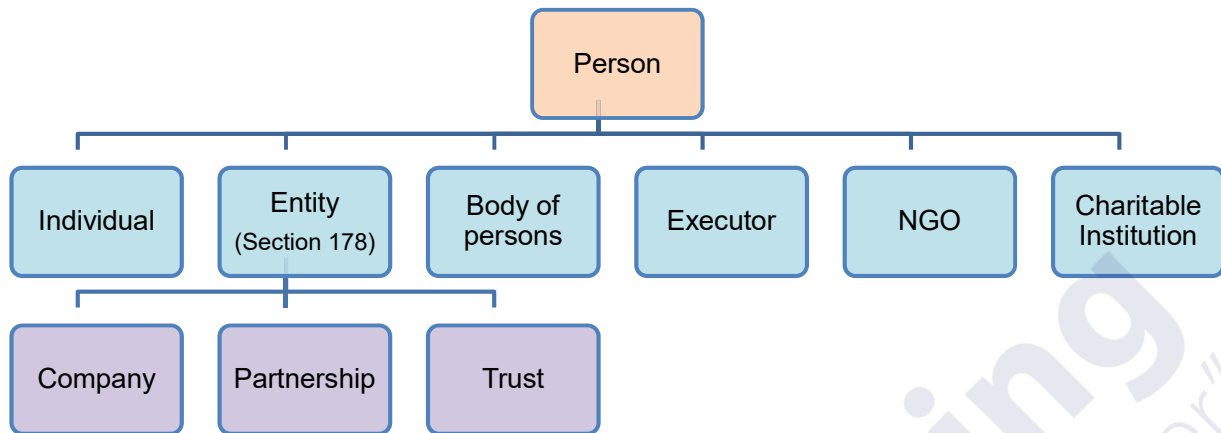
### **Who is considered as person?**

An individual or entity and includes a body of persons corporate or unincorporate, an executor, non-governmental organization and charitable institution. (Section 184)

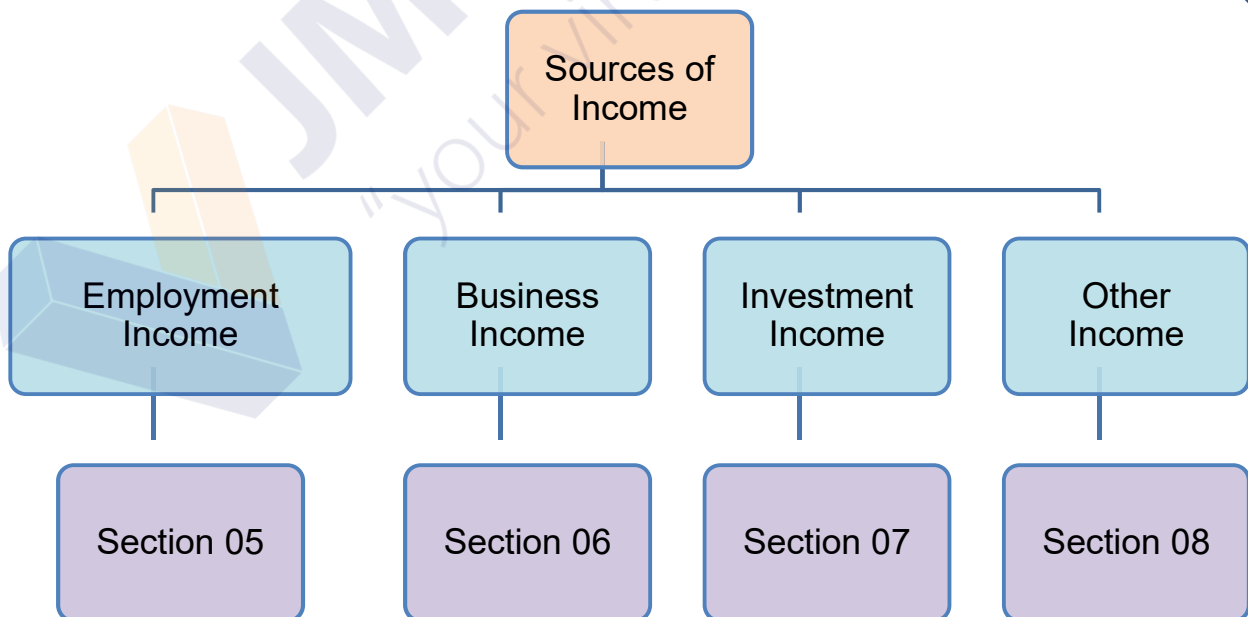
Lahiru Karunaratna

4

## Person simplified



## What are the Sources of Income?



## What is Taxable Income (Section 3)

Taxable Income = Assessable Income – Qualifying Payments and Reliefs

## What is Assessable Income (Section 4)

Assessable income is the total income received from all sources of income where ever arises for a resident.

## Basic Taxable Income Computation Format



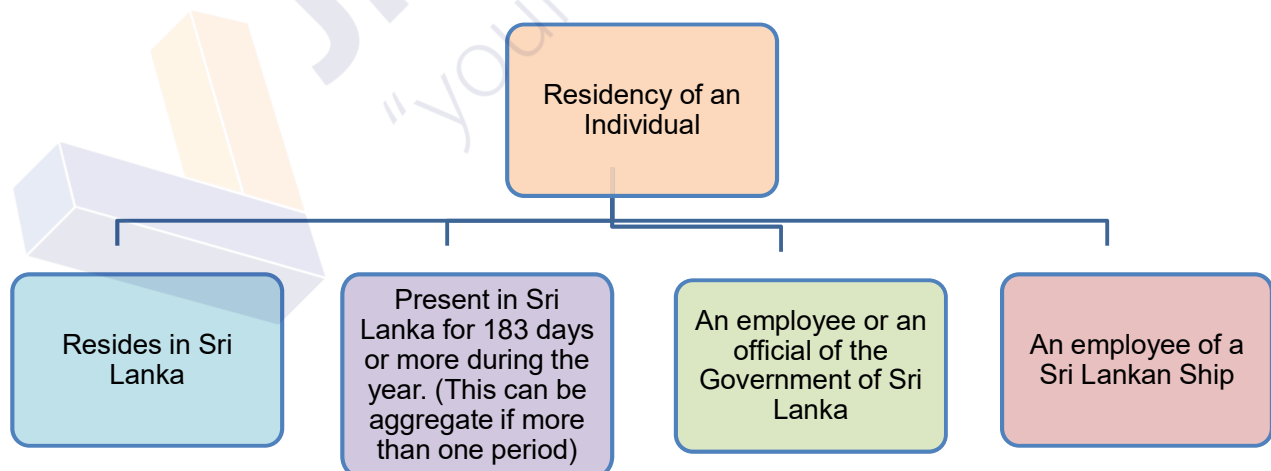
Microsoft Excel  
Binary Worksheet

Lahiru Karunaratna

7

## Residency (Section 69)

### Individual



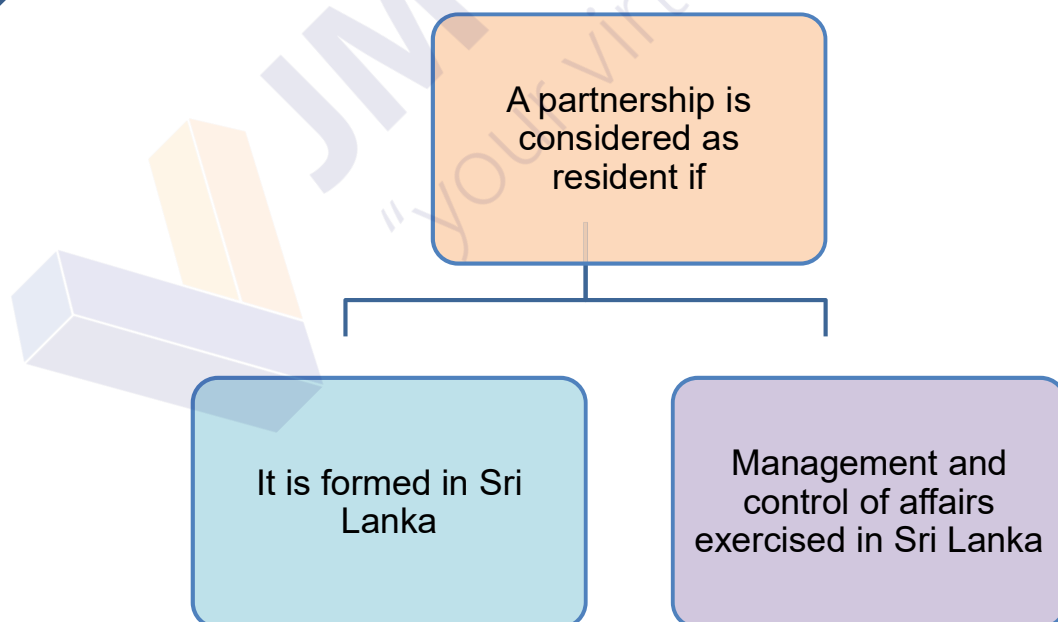
Lahiru Karunaratna

8

## Knowledge Test 01

Mr. John who is an American was appointed as the CEO of C bank branch in Sri Lanka from 01.10.2021. He arrived to the country on 03.10.2021. After that he has went back to USA during the Christmas from 20.12.2021 till 29.12.2021. Further, during the month of March has again went back to USA due to the medical conditions of his wife. He was not in the country from 05.03.2022 to 15.03.2022. Assess the residence status of Mr. John for income tax purpose for the year of assessment 2021/22.

### Partnership



## Company

