



Assessable Income - Investment

Mrs. Iroma Rajika



JMC Jayasekera Management Centre (Pvt) Ltd
Pioneers in Professional Education

65/2A, Chittampalam Gardiner Mawatha, Colombo 02 | T: +94 112 430451 | E: info@jmc.lk | F: +94 115 377917

1.0 What is Investment Income

Investment income is received from investment. Investment means the owning of one or more assets, including one or more assets of a similar nature that are used in an integrated fashion.

Investment assets means, a capital asset held as part of an investment.

Capital Asset means each of following assets;

- Land or building
- A membership interest in a company (shares), partnership or trust
- A security or other financial asset
- An option, right or other interest in an asset,
- but exclude trading stock or a depreciable asset.

Person's income from an investment for a year of assessment shall be the person's gains and profits from that investment for the year.

In calculating a person's gains and profits from an investment derived or received during a year of assessment the following amounts received or derived by the person during the year of assessment from the investment shall be included:

- dividends, interest, discounts, charges, annuities, natural resource payments, rents, premiums and royalties;
- gains from the realization of investment assets as calculated under Chapter IV;
- amounts derived as consideration for accepting a restriction on the capacity to conduct the investment;
- gifts received by the person in respect of the investment;
- winnings from lotteries, betting or gambling; and
- other amounts required to be included under this Act.

In calculating a person's gains and profits from an investment for a year of assessment 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 or business

2.0 Rules applicable for withholding tax

Investment income is subject to WHT, there are certain rules applicable to payer of the income (withholding agent) and recipient of the income (witholdee).

"Withholding Agent" means, a person required to withhold the tax from a payment under IR Act.

"Witholdee" means, a person receiving or entitled to receive a payment from which tax is required to be withheld under the IR Act.

2.1 Rules applicable for Withholding Agents

- Pay to the CGIR within fifteen days after the end of each calendar month any tax that has been withheld during the month.
- Furnish the annual statement along with schedules within thirty days after the end of each year ending on the 31st March.
- A WHT agent who fails to withhold tax in accordance with the Act should however pay the tax that should have been withheld in the same manner and at the same time as tax is withheld.

Example 01 :

Confirm the WHT agent and withholdee in following scenarios.

- Mr.Kasun is having a fixed deposit of Rs.500,000/- in BOC
- Mr.X received a dividend of Rs.1,000,000/- from ABC (Pvt) Ltd
- Mr.B rented out his office building to XYZ (Pvt) Ltd

3.0 Categories of Investment Income

3.1 Dividend Income

- Dividend is defined as follows;
 - A payment derived by a member from a company, whether received as a division of profits,
 - In the course of a liquidation or reconstruction, in a reduction of capital or share buy- back or otherwise,
 - A capitalization of profits whether by way of a bonus share issue, increase in the amount paid-up on shares or otherwise; andWhether an amount is distributed or not; and

However, it excludes a payment to the extent to which it is –;

- matched by a payment made by the member to the company;
 - debited to a capital, share premium or similar account; or
 - otherwise constitutes a final withholding payment or is included in calculating the income of the member;
- Dividends distributed by a resident company is taxed on the hands of shareholders at 14% on gross dividends.
 - Exemption on dividend income;
a dividend paid by a resident company to a member to the extent that dividend payment is attributable to, or derived from, another dividend received by that resident company or another resident company that was subject to withholding under section 84

Example 01 :

R&R is planning to distribute an interim dividend of Rs. 4,800,000 on 19 January 2019 for the Y/A 2018/19, of which Rs. 3,000,000 will be paid out of the net dividends received from other companies.

- Compute the WHT to be deducted on the distribution made.
- State the due date for the payment of the above tax to the Department of Inland Revenue.

Example 02 :

Determine the tax implication for the;

- Dividends paid out of profits & income
- Dividends paid out of dividend received

3.2 Interest Income

- Interest is defined as follows;
 - a payment, including a discount or premium, made under a debt obligation that is not a repayment of capital; and
 - a swap or other payment functionally equivalent to interest;
 - a commitment, guarantee or service fee paid in respect of a debt obligation or swap agreement; and
 - a distribution by a building society;
- Withholding Tax on Interest Income is 5%.
- Interest income can be arised from;
 - Deposits held in banks & financial institutions
 - Investments made in debentures
 - Investment made in government securities
- Exemption on interest income
 - an amount equal to the interest or the discount paid or allowed, as the case may be, to any non-resident person or to any licensed commercial

bank in Sri Lanka, by the issuer of any sovereign bond denominated in foreign currency, issued on or after October 21, 2008, by or on behalf of the Government of Sri Lanka;

- the interest 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;
- The reliefs referred to in section 52 shall be as follows
- In the case of an individual who is a senior citizen in a year with interest income derived from a financial institution, Rs. 1,500,000 for each year of assessment, up to the total of the individual's interest income for the year;

- Interest or discount paid to any person on Security or Treasury Bond under the Registered Stocks and Securities Ordinance (Chapter 420) or Treasury Bill under the Local Treasury Bills Ordinance (Chapter 417); or is not subject to WHT.

Example 01:

Mr.Kasun received following interest income for the Y/A 2018/19. Determine the tax implication.

- Fixed deposit interest (Gross) Rs.100,000/- from BOC
- Debenture interest (Gross) from Q PLC of Rs.500,000/-
- Treasury bill interest (Gross) of Rs.1,000,000/-

Example 02:

Mr.Silva is 65 years old in the Y/A 2018/2019. He received Rs.1,800,000/- of interest income for a fixed deposit.

Determine the tax implication.

Example 03 :

To whom interest income, which WHT deducted become a final withholding payment.

3.3 Rent Income

- Rent is defined as follows;
 - a payment, including a payment of a premium or like amount, for the use of or right to use property of any kind;
 - includes a payment for the rendering of, or the undertaking to render, assistance ancillary to a use or a right referred to in paragraph (a); but
 - excludes a natural resource payment or a royalty;
- Withholding Tax on Rent Income is 10% (Resident Person) and 14% (if Non- Resident Person).
- Calculation of taxable rent income
 $\text{Taxable Rent} = \text{Gross rent} - \text{Expenses incurred for the production of rent income}$ Ex: Rates, Loan interest, repairs & maintenance
- The reliefs referred to in section 52 shall be as follows
- in the case of 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;

Example 01 :

Calculate the taxable rent income for the Y/A 2018/19.

Mr.Kasun is having an additional house situated in Kandy. He has rented out this for Rs.50,000/- per month. He has incurred following expenses for the rented house. Rates paid Rs.100,000/-. Interest on loan obtained to construct the house Rs.150,000/-, Repairs & maintenance Rs.25,000/-.

Example 02 :

Determine the tax implication in following scenarios.

- a) Mr.Silva has rented out his additional house situated in Colombo for Rs.100,000/- per month to Mr.Y for the residential purpose. He has paid Rs.50,000/- as rates.
- b) In addition to rented house he has rented out office building to XYZ (Pvt) Ltd for Rs.125,000/- per month. He paid Rs.150,000/- as loan interest, which the loan is taken for the construction of this building. Rates of Rs.100,000/- is paid by the tenant.

3.4 Natural Resource Payments

- Natural resource payment is calculated based on the natural resources taken from land or sea situated within Sri Lanka or its territorial waters has a source in Sri Lanka. Example; Minerals, petroleum, water or any other non-living or living resources that can be taken from land or sea.
- WHT on natural resource payment is 14%.

3.5 Winnings from lotteries, betting or gambling

- Winnings from lotteries, betting or gambling is taxable under investment income.
- As per the third schedule, any winnings from a lottery, the gross amount of which does not exceeds Rs.500,000/- is exempted.
- WHT on winnings from lotteries, betting or gambling is 14%.

3.6 Gifts received by a person in respect of the investment

- As per the Inland Revenue Act No.24 of 2017, gift is defined as follows; gift" means a transfer without consideration or a transfer with consideration to the extent that the market value of the property exceeds the market value of the consideration.

3.7 Gains from the realization of investment assets as calculated under Chapter IV / Capital Gain Tax

- Gains from the realization of investment assets/ Capital Gain Tax is calculated as follows;
(Sales proceeds – Cost of the Asset**) x 10%
** Cost of the asset is taken the market value of the asset as at 30th September 2017.
- Exemptions on Gains from the realization of investment assets/ Capital Gain Tax

-a gain made by a resident individual from the realization of an investment asset that does not exceed Rs. 50,000 and where the total gains made by the resident individual from the realization of investment assets in the year of assessment do not exceed Rs. 600,000, except –

(i) where the Commissioner-General is satisfied that an investment asset has been realized in two or more parts for the purpose of taking advantage of this paragraph, any gain arising from the realizations shall be exempt under this paragraph only if the total gain from the realization of all parts does not exceed Rs. 50,000 and the total gains made by the resident individual from the realization of investment assets in the year of assessment do not exceed Rs. 600,000;

(ii) in the case of the realization of an investment asset that is jointly owned, this paragraph applies only if the total gain made by all owners of the investment asset on realization of the asset does not exceed Rs. 50,000 and the total gains made by the resident individual in the year of assessment do not exceed Rs. 600,000;

- a gain made by a resident individual on the realization of the individual's principal place of residence, provided it has been owned by the individual continuously for the three years before being realized and lived in by the individual for at least two of those three years (calculated on a daily basis);
- Capital gain on realization of quoted company shares
- Personal allowance of Rs.500,000/- is not allowed to be claimed against the gain on realization of assets.
- Capital gain tax return should be submitted to IRD not later than one month after the date of realization.

Example 01 :

ISL sold a bare plot of land which has been recorded as an investment asset in the books of account for a consideration of Rs. 9,500,000 in the 30th April 2019. This land was purchased at a cost of Rs. 3,670,000 five years ago and the market value of this land as at 30 September 2017 was Rs. 8,750,000. An advertisement has already been published to find a buyer to sell this land and the cost incurred on this was Rs. 82,000.

Required:

- a) Based on the above facts, compute the capital gain tax on the sale of this land.
- b) State the due date for payment of the capital gain tax to the Department of Inland Revenue.

3.8 Charge

- A charge is a sum received by a person arising out of a deed or the result of a court order, which is secured on the income of any property of the payer.

- WHT on charge is 14%.

3.9 Premiums

- A premium is a payment for the right to use a property over and above the payment for actual use.
Example; key money received from letting commercial premises.
- WHT on premium is 14%.

3.10 Annuity

- Annuity means a fixed sum receivable annually which is not a capital nature. The payment of annuity which should be made with reference to a year may be in periodic installment.
- WHT on annuity is 14%.

3.11 Royalty

- "royalty" means a payment, including a payment of a premium or like amount, derived as consideration for –
 - (a) the use of or right to use a copyright of literary, artistic or scientific work, including cinematograph films, software or video or audio recordings, whether the work is in electronic format or otherwise;
 - (b) the use of or right to use a patent, trade mark, design or model, plan, or secret formula or process;
 - (c) the use of or right to use any industrial, commercial, or scientific equipment;
 - (d) the use of or right to use information concerning industrial, commercial or scientific experience;
 - (e) the rendering of or the undertaking to render assistance ancillary to a matter referred to in paragraph (a), (b), (c) or (d); or
 - (f) a total or partial forbearance with respect to a matter referred to in paragraph (a), (b), (c), (d) or (e);
- WHT on royalty is 14%.

4.0 Losses from investment

- Unrelieved losses from investment shall be deducted only in calculating income from investment.
- A gain from realization of an investment asset shall not reduced by any loss on disposal of another investment asset.

AAT Final - 2020 January (Past Paper) Q9.

1. Suresh has made investments in public listed companies. During the year, net dividend received was Rs.215,000/- and profit made on the sale of listed shares in Colombo Stock Exchange was Rs.153,000/-.

2. Suresh has received Interest income of USD 170(net of WHT) (USD 1 = LKR 180/-) on RFC account during the year.

3. Suresh lives in an apartment at Nugegoda. His ancestral house is situated in Galle which is rated at Rs.250,000/-. Rates were paid at 25%. This house was rented out at a monthly rent of Rs.100,000/- to a company from 01st April 2018. Rent relevant for the year was paid at the end of each month. The company has deducted Withholding Tax (WHT) when making monthly rent payments.

Determine the tax implication on above sections.



AAT Final – 2019 July (Past Paper) Q9.

1. Ms. Sarala has received the following interest income during the year:

- On a Fixed Deposit - Rs.243,750/- (net of WHT).
- On a T-Bill - Rs.100,000/-

2. Ms. Sarala has a house in Rathnapura which is rated at Rs.250,000/-. This house was rented out at a monthly rent of Rs.45,000/-. Rates were paid at 25%.

3. She has invested in shares of some companies listed in Colombo Stock Exchange. During the year, she has received a net dividend income of Rs.43,000/-.

Determine the tax implication on above sections.

