SESSION 01: CL-25-4 -TAXATION

Lecturer:
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Learning Leads

Learning Leads		Weightage Given	Key Proficiency Level
A. Corporate Entities: Formation, Governance, and Legal Frameworks	Legal Personality and Incorporation of Companies	10%	Apply & Analyse
	Operations and Governance of Companies	20%	
	Listing and Capital Markets Regulations	10%	
	Adjacent Legal Frameworks to Corporate Law	5%	
	Corporate Reorganization and Winding Up	10%	
B. Corporate Taxation: Frameworks, Compliance, and Dispute Resolution	Corporate Income Tax and Taxation Frameworks	20%	
	Value Added Tax (VAT)	15%	
	Tax Dispute Resolution Mechanisms	10%	

Learning Leads

B1.1 Corporate Income tax (CIT)	*B1.1.1 Income from business of a resident company*	B1.1.1.1 Calculate the assessable income from business activities, including adjustments for allowable expenses, disallowed expenses, and specific provisions under tax laws.
	B1.1.2 Income from investment of a resident company	B1.1.2.1 Calculate the assessable income from investment activities, considering sources like dividends, interest, and rental income, along with applicable deductions.
	B1.1.3 Taxable income of a company	B1.1.3.1 Calculate the taxable income by deducting qualifying payments, including charitable contributions, investment reliefs, and other deductions permitted under tax laws.
	B1.1.4 Tax liability of a company and the balance tax payable	B1.1.4.1 Apply the appropriate tax rates to compute the income tax liability, considering the company's category and business nature as per tax regulations.
		B1.1.4.2 Calculate the balance tax payable by adjusting for self-assessed payments, withholding taxes, and tax credits applicable to companies.
	B1.1.5 Tax Concessions applicable to companies	B1.1.5.1 Analyse business activities to Apply appropriate tax incentives, including investment reliefs, tax holidays, and sector-specific benefits.
		B1.1.5.2 Outline the concessions available under the Board of Investments and the Colombo Port City Economic Commission Act, focusing on eligibility criteria, benefits, and compliance requirements.
		B1.1.5.3 Examine international sustainability-linked tax incentives and their impact on corporate environmental and social governance (ESG) practices, focusing on regulatory compliance, long-term benefits, and stakeholder perceptions.

Learning Leads

B2: Value Added Tax (VAT) (15%)

LEARNING LEAD	LEARNING DETAIL	LEARNING OUTCOME
B2.1 Value Added Tax for business	*B2.1.1 Obligations of a VAT-registered person*	B2.1.1.1 Analyse the application of taxable supplies, zero-rated supply, exemptions, time of supply, value of supply, input tax, and taxable period in a complex organizational framework.
		B2.1.1.2 Calculate the value of supplies for diverse activities (including leasing, insurance, and the sale of condominium accommodation), considering applicable VAT regulations and valuation rules.
		B2.1.1.3 Analyse the computation of output tax, input tax, and balance tax payable by a registered person operating a business with multiple activities, focusing on tax adjustments and compliance requirements.
		B2.1.1.4 Analyse the statutory obligations related to furnishing returns, tax payments, and documentation, emphasising legal compliance, deadlines, and penalties for non- compliance.
	B2.1.2 Simplified VAT scheme (SVAT)	B2.1.2.1 Outline the significant features of the SVAT Scheme, including eligibility criteria, compliance requirements, and benefits for businesses.
		B2.1.2.2 Analyse the VAT liability of registered identified purchasers and suppliers, focusing on tax rates, exemptions, and the calculation of input and output taxes.
		B2.1.2.3 Examine the role of digital tools in streamlining VAT compliance processes, emphasising their impact on accuracy, efficiency, and regulatory adherence.

Learning Leads

B3: Tax Dispute Resolution Mechanisms (10%)		
B3.1 Tax Dispute Resolution	*B3.1.1 Objections and Appeals*	B3.1.1.1 Analyse the types of assessments issued under the Inland Revenue Act and Value Added Tax Act, focusing on their purposes, legal bases, and implications for taxpayers.
		B3.1.1.2 Outline the procedure in making a valid appeal, request for administrative review and the settlement procedure, including appeals to the Tax Appeal Commission.
		B3.1.1.3 Examine the process for submitting objections to tax assessments, including statutory requirements, deadlines, and supporting documentation.
		B3.1.1.4 Discuss key features and procedural steps of the Revenue Administration Management Information System (RAMIS) for appeals and objections.
	B3.1.2 Prepare suitable submissions	B3.1.2.1 Prepare suitable submissions to defend taxpayers against issued assessments, emphasising factual accuracy, legal grounds, and compliance with procedural requirements.
	B3.1.3 Tax in default, Penalties and Interest on tax in default	B3.1.3.1 Analyse tax in default, associated penalties, and interest implications under the Inland Revenue Act and Value Added Tax Act, focusing on legal provisions and taxpayer responsibilities.
	B3.1.4 Recovery Action under the Inland Revenue Act	B3.1.4.1 Examine recovery actions under the Inland Revenue Act and Value Added Tax Act, focusing on enforcement measures, taxpayer rights, and procedural safeguards.
	B3.1.5 Types of Rulings issued under the Inland Revenue Act	B3.1.5.1 Analyse the types of rulings issued under the Inland Revenue Act, including their purposes, legal significance, and impact on taxpayer compliance.

IMPOSITION OF INCOME TAX

Learning Outcomes

At the end of the lesson, the students should be able to:

1. Identify the Statutory provisions applicable to income tax.
2. Explain the imposition chargeability of income tax to a person under the Inland Revenue Act.
3. Determine the residency status of a person

Contents

Statutory Provisions applicable to Income Tax

(a) Inland Revenue Act

The main Act which is applicable to the imposition of income tax in Sri Lanka is the Inland Revenue Act, No. 24 of 2017 (IR Act).

(b) Gazette Notifications

(c) Case Laws

(d) Rulings

Applicability of Income Tax Law

Inland Revenue Act No. 10 of 2006 was repealed with Inland Revenue Act No. 24 of 2017. The New Act, effective from 01.04.2018 (From Year of Assessment 2018/2019).

- Amended Act No.10 of 2021, an Act to amend the Inland Revenue Act, No. 24 of 2017.
- Inland Revenue (Amendment) Act, No. 45 of 2022 to amend the Inland Revenue Act, No. 24 of 2017.
- Inland Revenue (Amendment) Act, No. 04 of 2023 to amend the Inland Revenue Act, No. 24 of 2017.
- Inland Revenue (Amendment) Act, No. 14 of 2023 to amend the Inland Revenue Act, No. 24 of 2017.
- Inland Revenue (Amendment) Act, No.02 of 2025 to amend the Inland Revenue Act, No. 24 of 2017.

Imposition of Income Tax

The liability of income tax in Sri Lanka is based on the charging section (section 2) of the "Inland Revenue Act, No. 24 of 2017".

Under section 2, income tax is payable for each year of assessment by;

(a) A person who has **taxable income** for that year of assessment, or
(b) A person who receives a **final withholding payment** during the year.

The income tax payable is equivalent to;

(Taxable Income x **Rate/s*)** – tax credits,

***The relevant tax rates are given in First Schedule to the Act**

Chargeability of Income Tax

To understand the chargeability of income tax, need to find answer for below questions.

- **Who** is liable?
- **How frequently** should the tax be computed?
- **On what** should the tax be computed?
- **At what rate** should the tax be computed?

Chargeability of Income Tax Cont.

- **Who** is liable? - **every person**
- **How frequently** should the tax be computed? **- for every year of assessment**
- **On what** should the tax be computed? **- in respect of taxable income & final withholding payments**
- **At what rate** should the tax be computed? **- at the rates specified in the First Schedule**

Person (Sec 195)

Definition (Sec. 195)

“person” means an individual or entity and includes a body of persons corporate or unincorporated, an executor, non-governmental organization and charitable institution.

The word “person” is defined as an exhaustive definition covering the following;

i. An individual and an entity

ii. It includes

- (a) a body of persons corporate or unincorporate
- (b) an executor
- (c) a non-governmental organization
- (d) a charitable institution

Entity – Section 195

- Entity means a company, partnership or trust, but excludes an individual.

Year of Assessment

- Period of tax for income tax purpose is a “Year of Assessment”. “Year of Assessment” means the period of twelve months commencing on the first day of April of any year and ending on the thirty first day of March in the immediately succeeding year.

- ***Year of assessment 2025/2026 refers to the period from April 01, 2025 to March 31, 2026.***

Assessable Income

<u>Assessable Income – Section 4</u>

As per *section 4, "Assessable Income*, a resident person shall pay Income Tax on the world income while a non-resident person shall pay the income tax on the income arises in or is derived from a source in Sri Lanka.

There are four sources of Assessable Income. The aggregation of,

- Employment Income
- Business Income
- Investment Income (Income from investment activities and **capital gains**)
- Other Sources

Taxable Income

- **<u>Taxable Income – (Section 3)</u>**

As per section 3, Taxable Income is Assessable Income Less qualifying payments and reliefs (Reliefs applicable to Individuals) The Taxable Income of each person and the Assessable Income from each source shall be determined separately.

Tax Rate *(First Schedule IRD Act)*

<u>Tax Rates for Companies</u>

- With effective from 01.10.2022, the gains and profits of a company including gain from realization of investment asset shall be taxed at the Income Tax Rate of 30%.

- Any year of assessment commencing on or after April 1, 2025, the gains and profits of a company shall be taxed at the following rates,
  - a) gains and profits from conducting betting and gaming - 45%
  - b) gains and profits from the manufacture and sale or import and sale of any liquor or tobacco product - 45%

- The gains and profits earned or derived from any service rendered in or outside Sri Lanka to any person to be utilized outside Sri Lanka, where the payment for such services is received in foreign currency and remitted through a bank to Sri Lanka – 15% effective from 01.04.2025

- The gains and profits earned or derived from any foreign source where such gains and profits are earned or derived in foreign currency and remitted through a bank to Sri Lanka – 15% effective from 01.04.2025

Withholding Payments including the final withholding payments

Application of Withholding Tax / Advance Income Tax (AIT)

Payment	Relevant WHTRate (%)
✓ Service fee payments exceeds Rs. 100,000 per calendar month to a resident individual who is not an employee of the payer with respect to following – a) for teaching, lecturing, examining, invigilating or supervising an examination; b) as a commission or brokerage to a resident insurance, sales or canvassing agent; or c) for services provided by such individual in the capacity of independent service provider such as doctor, engineer, accountant, lawyer, software developer, researcher, academic or any individual service provider as may be prescribed by regulation.	5% on Full Payment
✓ Interest or discount paid – from 01.04.2025	10%

Withholding Payments including the final withholding payments

Application of Withholding Tax / Advance Income Tax (AIT)

❑ Rent payments to a resident person (if aggregate amount exceeds Rs. 100,000 per calendar month and if the property is provided to conduct a business)	10% on full Payment
❑ Charge, natural resource payment or premium	14%
❑ Royalty	14%
❑ Dividend (Dividend declared by a resident company using profit, shall be a final withholding payment).	15%
❑ Amounts paid as winnings from a lottery, reward, betting or gambling, other than amounts received in conducting a business consisting of betting and gaming.	14%

Residential Status of a Person

Final Withholding Payments – Section 88 (1A)

What is the meaning of final withholding payment – ***That means such payments are not again liable for tax under assessable income. "Income which does not form part of the assessable income."***

the following shall, on or after 01st April 2018, be the final withholding payments.

amounts paid as winnings from a lottery, reward, betting or gambling, other than amounts received in conducting a business consisting of betting and gaming.

Final withholding payments on or after 01st January 2023.

on or after January 1, 2023, dividends paid by a resident company.

Definitions of Withholdee and Withholding Agent under section 195

"Withholdee" means a person receiving or entitled to receive a payment from which tax is required to be withheld under this Act;

"Withholding Agent" means a person required to withhold tax from a payment under this Act.

Residential Status of a Person

- Individual resident status
- Company resident status

Why it is important to know the residential status of a person?

- a resident person shall pay income tax (IT) on the world income, while
- a non-resident person shall pay income tax (IT) on the income that arises in/from Sri Lanka. (Sec. 4)

Taxation of Resident & Non - Resident

- If a person including a company is a resident person for income tax purposes, he or it is liable to pay income tax on “income from employment, business, investment or other sources wherever arising”. That means he or it is liable to pay income tax on profits and income which arises in Sri Lanka as well as outside Sri Lanka.

- If a person including a company is a non-resident person for income tax purposes, he or it is liable to pay income tax on ““income from employment, business, investment or other sources that arise or derived from Sri Lanka.

Resident Status of an Individual

To decide individual as a resident individual one of below criteria should be fulfill,

- resides in Sri Lanka.
- is present in Sri Lanka during the year and that presence falls within a period or periods amounting in aggregate to one hundred and eighty-three days or more in any twelve-month period that commences or ends during the year;
- is an employee or an official of the Government of Sri Lanka and his spouse is posted abroad during the year; or
- is an individual who is employed on a Sri Lanka ship, within the meaning of the Merchant Shipping Act, during the period the individual is so employed.

Activity 01

Kavija Gamage has been transferred to an Indian branch of the corporation for two years. He decided not to accompany with the family since the children are schooling here and wife is working here. He has a permanent home available in Sri Lanka, and his bank accounts are continued to be maintained for remitting his salary to Sri Lanka. However, he has given up his club memberships and sold his motor car. He has rented out an apartment in India, and when he is free, he flies to Sri Lanka at least once in three months.

Determine whether or not Kavija Gamage is a resident of Sri Lanka.

Activity 02

Given below is a summary of the overseas travel details of Mr.Silva, a citizen of Sri Lanka, and determine whether he is a resident person or not for the year of assessment 2025/2026.

Date of Departure	Date of Arrival
01.04.2025	15.04.2025
01.05.2025	25.06.2025
29.06.2025	15.08.2025
17.08.2025	17.10.2025
24.03.2026	15.04.2026

Activity 03

Kamindu who is a Sri Lankan citizen, migrated to Australia with his family on 10th June 2020 and started his own business in Australia. His main business' customers are in Sri Lanka. Therefore, he frequently visits Sri Lanka. During the year of assessment 2025/26, he visited Sri Lanka on 05th July 2025 to attend business meetings with customers and departed from Sri Lanka on 14th November 2025.

You are required to:

Explain the residence status of Kamindu for taxation purpose in Sri Lanka for the year of assessment 2025/26 as per the provisions of the Inland Revenue Act No 24 of 2017.

Resident Status of a Company

As per the Section 69 of the Act, a Company is deemed to be resident for tax purposes, if;

- it is incorporated or formed under the laws of Sri Lanka;
- it is registered or the principal office is in Sri Lanka; or
- at any time during the year the management and control of the affairs of the company are exercised in Sri Lanka.

Activity 04

ABC Incorporation. is a multinational company based in New Zealand. It has a subsidiary company in Sri Lanka, which was registered on 01st December 2017 under the Companies Act No. 07 of 2007.

You are required to:

Explain the resident status of that subsidiary company for taxation purposes in Sri Lanka in relation to the year of assessment 2025/26.

Activity 05

Advise whether the below income falls within the scope of chargeability of income tax.

a) "A" company resident in Sri Lanka has provided consultancy services outside Sri Lanka for a fee of USD 10,000.
b) "A" company non-resident in Sri Lanka has carried out business in Sri Lanka and earned profit of USD 250,000 thereon.
c) A is a non-resident individual has earned a fee of USD 1,500 in providing professional service in abroad.

Q&A ?

Thank you