



Employment Income

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What is employment income?

Income from an employment shall be individual's gains and profits from the employment. (Section 5.1)

What is employment?

A contract between an employee and an employer where the employee will work to the employer for agreed payment.

Characteristics of employment

- Employment contract.
- Periodicity.
- Dependency.

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What includes employment income?

- Salary, wages, leave pay, overtime pay, fees, pensions, commissions, gratuities, bonuses and other similar payments (Section 5.2.a).
- Personal allowance, cost living allowance, subsistence, rent, entertainment or travel allowance (Section 5.2.b).
- Discharge or reimbursement of expenses incurred by the individual or by an associate of the individual (Section 5.2.c).
- Payments in agreement to conditions of employment (Section 5.2.d).
- Redundancy or loss or termination of employment (Section 5.2.e).
- Subject to section 3.f, contributions made by the employer for a retirement fund. i.e. EPF contribution by the employer (Section 5.2.f).
- Payments or transfers to another person for the benefit of the individual or an associate (Section 5.2.g).
- Fair market value of benefits received by the individual or an associate (Section 5.2.h).
- Other payments including gifts (Section 5.2.i).

Exclusions from employment income?

- Exempt amounts and final withholding payments (5.3.a).
- Reimbursements of expenses incurred on behalf of the employer (5.3.b).
- Dental, medical or health insurance expenses where the benefit is available for all full time employees on equal terms (5.3.c).
- Payments made or benefit accruing which are unreasonable or administratively impracticable for the employer to allocate to the individuals (5.3.d).
- EPF or similar contribution by the employer on behalf of the employee to a fund approved by the CGIR (5.3.f).

Knowledge Test 1

Mr. Perera who works as an executive in ABC & Co. received the below as a part of his employment income during the month of December 2021. Advice Mr. Perera on which of them are falling under the tax liable employment and which of them are excepted.

- Basic Salary of Rs. 200,000
Liabe
- Meal allowance of Rs. 50,000.
Liabe
- Over time payment of Rs. 20,000.
Liabe
- Reimbursement of sundry expenses incurred on behalf of the company Rs. 5,000.
Excluded
- Claim of dental expenses mounting to Rs. 7,500. The dental expenses were not claimed for Mr. Nimal who is also an executive of the company.
Liabe
- ABC has also claimed medical expenses of Mr. Perera and all the employees of the company has the facility to claim their medical expenses.
Excluded

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Value of Non Cash Benefits

1. Value of company shares awarded to employees

- Value of the share or the option in excess of the market value at the time of allotment if any will be reduced by the employee's contribution if any.

2. Value of any residence provided by the employer

- Value should be the market value and if the market value is not ascertainable the below can be used.

Monthly Remuneration	Monthly non cash benefits		
	Rated Are	Unrated Area	State Bungalow
Less than or equal to Rs. 200,000	20,000 or 12.5% of the remuneration which ever is lower	15,000 or 10% of the remuneration which ever is lower	10,000 or 7.5% of the remuneration which ever is lower
More than 200,000	40,000 or 12.5% of the remuneration which ever is lower	30,000 or 10% of the remuneration which ever is lower	20,000 or 7.5% of the remuneration which ever is lower
Furniture	Rs. 5,000 or 2.5% of the remuneration whichever is lower		

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Value of Non Cash Benefits

- If the employer reimburses any expense relating to the house or apartment occupied by the employee the actual expense reimbursed by the employer should be considered as the value.

3. Value of transport facility provided by the employer

- If the employer provides a vehicle for fully or partial private use the value of the benefit should be the market value and if the market value is not available the below can be used.

Engine	Non cash benefit Rs. Per month		
	Vehicle	Driver	Fuel
<ul style="list-style-type: none">• Not more than 1800cc• Not more than 200KW	20,000	10,000	20,000
<ul style="list-style-type: none">• More than 1800cc• More than 200KW	35,000	10,000	30,000

Value of Non Cash Benefits

- If more than one vehicle is provided by the employer for private use only one vehicle should be considered to tax purpose.
- Value of motor bicycle;
 - With fuel Rs. 5,000 per month.
 - Without fuel Rs. 3,000 per month.
- Value of benefit from private use of;
 - If motor vehicle is provided for field work and accurate records are maintained by the employer Rs. 25 per Km.
 - If motor bicycle is provided for field work and accurate records are maintained by the employer Rs. 5 per Km.
- If employer incurred or reimburses the fuel or any expense of a vehicle owned by the employee the actual amount.

Value of Non Cash Benefits

- Other benefits

	Nature of Benefit	Value of Benefit
1	Provision of hotel facilities for expatriates (Emigrants)	100% of the cost
2	Loans on concessionary rates	50% of the difference between market rate defined by the CGIR and the concessionary rate. (Market rate for 2018/19 will be 9.08%)
3	Provision of servants	100% of the cost
4	Provision of electricity and gas	
5	Provision of medical benefits	
6	Provision of free meals	
7	Air tickets other than for official purposes	
8	Payment of telephone bills and annual chargers	50% of the cost
9	Payment of tax	Amount of tax paid

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Knowledge Test 2

Except for what we have discussed above, Mr. Perera was also provided with the below facilities by ABC.

- A house was provided in a rated area with furniture.
- Mobile bill reimbursed by was Rs. 5,000.
- Salary of the servant bared by the company was Rs. 35,000.
- A car was provided by the company with engine capacity of above 1800cc.
- Fuel reimbursement during the month was Rs. 25,000.
- Mr. Perera has also obtained a loan facility from ABC at a concessionary rate of 4%. The interest charged for the month was Rs. 10,000.

Calculate the total employment income of Mr. Perera for the month of December 2021.

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Advance Personal Income Tax (APIT)

- For resident employees , employer shall deduct APIT from the employee with the consent of the employee and remit.
- For non residents despite of the employees consent employer shall deduct APIT and remit.
- The APIT will not be considered as a final tax and hence the employees are required to open a tax file and furnish the returns.

Employer and Employee obligations under APIT

- Employer shall deduct APIT from the employee with the consent of the employee except for terminal benefits and non residents.
- Employee shall furnish statement of primary employment to employer.
- APIT must be submitted to IRD by 15th of the following month.
- If employer fails to deduct APIT employee is responsible to pay the APIT.
- Employer should issue APIT certificate to all employees even for whom APIT is not deducted.
- Employer shall furnish the annual statement by 30th April each year.
- Penalty and interest on non payment;
 - Penalty of 20% of the unpaid tax.
 - Monthly interest of 1.5% of the unpaid tax.