

Imposition of Income Tax

AAT Level III

CPT - Corporate and Personal Taxation

Nuwan Sameera

B.Sc. (Accountancy) Sp., CBA, ACCA Finalist



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

CHAPTER 02: IMPOSITION OF INCOME TAX

Lecturer:
Mr. Nuwan Sameera

Taxation - Nuwan Sameera

1

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

Taxation - Nuwan Sameera

2

Content

1. Statutory Provisions Applicable to Income Tax
2. Applicability of Income Tax Law
3. Imposition of Income Tax
4. Resident Status of a Person

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- Inland Revenue Act No. 10 of 2006 was repealed with Inland Revenue Act No. 24 of 2017.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.

Taxation - Nuwan Sameera

5

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**

Taxation - Nuwan Sameera

6

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 (ACT)

- “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

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 2023/2024 refers to the period from April 01, 2023 to March 31, 2024.*

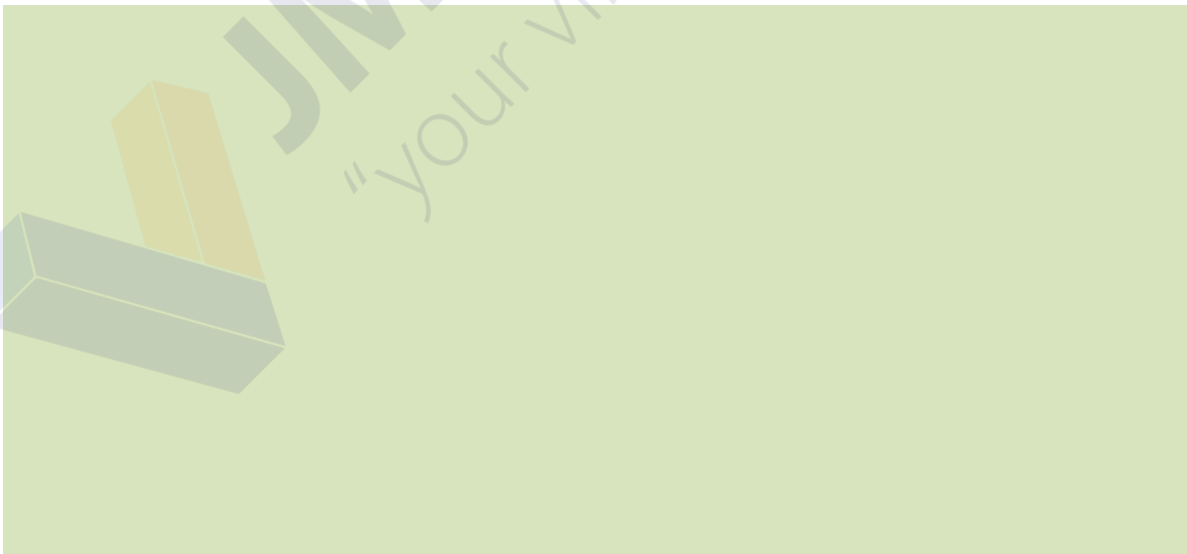
Taxable Income



Taxation - Nuwan Sameera

11

Tax Rate *(First Schedule IRD 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 2023/2024.

Date of Departure	Date of Arrival
01.04.2023	15.04.20223
01.05.2023	25.06.2023
29.06.2023	15.08.2023
17.08.2023	17.10.2023
24.03.2024	15.04.2024

Activity 03

Kamindu who is a Sri Lankan citizen, migrated to Australia with his family on 10th June 2019 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 2023/24, he visited Sri Lanka on 05th July 2023 to attend business meetings with customers and departed from Sri Lanka on 14th November 2023.

You are required to:

Explain the residence status of Kamindu for taxation purpose in Sri Lanka for the year of assessment 2023/24 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 2023/24.

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 non-resident individual has earned a fee of USD 1,500 in providing professional service in abroad.

Q&A ?

Thank you

Taxation - Nuwan Sameera

23



JMC vLearning
"your virtual learning partner"