

INCOME TAX LIABILITY OF A RESIDENT COMPANY

Strategic Level – CA Sri Lanka
Corporate Taxation (SL 3)

Resource Person:

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BB Mgt (HRM) SP, ACA, MAAT, ATII, ACMA, MBA in Taxation (PIM-SJP),

Calculation of Income Tax Payable

The Calculation of Income Tax Payable shall be computed as follows.

Assessable income from “business”	xxx	
Assessable income from “investment”	xxx	
Assessable income from “other sources”	<u>xxx</u>	
Total Assessable Income	xxx	
Less: Qualifying payments and reliefs under section 52 (5 th Schedule)		<u>(xx)</u>
Taxable Income	<u>xxx</u>	
Taxable income X tax rates as per First Schedule		xxx
(-) Tax Credits:		
Any other tax credit allowed under the Act		<u>(xx)</u>
Balance Tax payable	<u>xxx</u>	

Calculation of Income Tax Payable

The section 38 is not part of the consolidation but specific section of the Amendment Act No 45 of 2022

Calculation of income tax payable for the year of assessment commencing on April 1, 2022

1. The income tax payable by a person for the year of assessment commencing from April 1, 2022, shall be calculated separately for two periods of year of assessment as first nine months and second three months by individuals and first six months and second six months by persons other than individuals. For the purpose of such calculation of business income, the person may use pro-rata basis (as 75% for first nine months and balance 25% for second three months by individuals and 50% for first six months and balance 50% for second six months by persons other than individuals) to arrive the taxable income for such two periods.
2. Subject to the provisions of this Act, a person may submit a revised estimate for the purpose of tax payable by instalments.

Calculation of Income Tax Payable

ABC Limited

COMPUTATION OF INCOME TAX

	Rs.
Exempt Amounts	-
Computation of Taxable Income	
Business Income	-
Investment Income - Dividend	-
Investment Income - other than dividend	-
Assessable Income	-
Less: Qualifying Payments	
Donation to the Government	-
Donation to an approved charity	-
Taxable Income	-

Calculation of Income Tax Payable

Computation of Income Tax Payable

	Taxable Income Rs.	Rate @	Tax Rs.
Tax on realization of investment assets	-	10%	-
	-		-
Tax on Remittance	-	14%	-
	-		-
Tax on profits from dividend	-	14%	-
Tax on taxable income at special rates	-	14%	-
Tax on taxable income at special rates	-	18%	-
	-		-
Tax on balance taxable income at normal rate	-	24%	-
Total Tax Payable	-		-

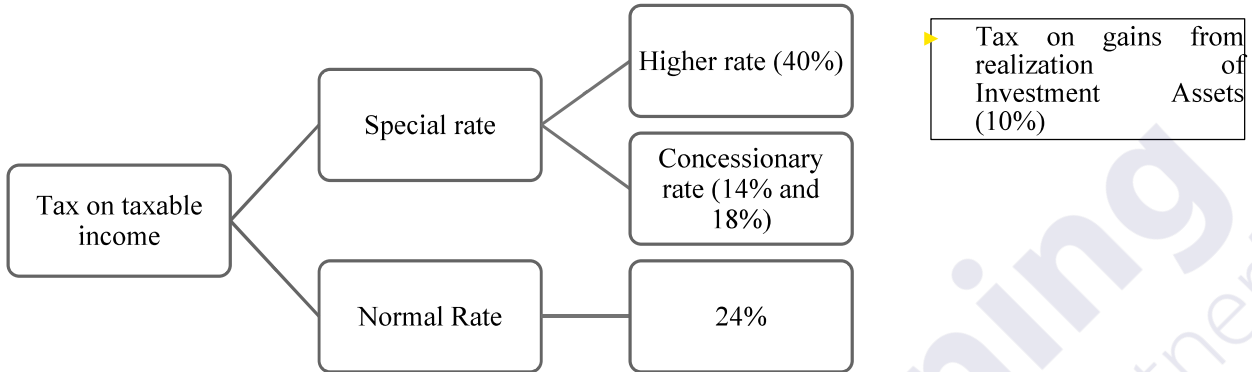
Calculation of Income Tax Payable

Less: Tax Credits	Rs.	
Economic Service Charge	-	
Notional Tax Credit	-	
Remittance Tax	-	
Withholding Tax	-	
Quarterly Installments	-	
Refunds	-	-
Balance Tax Payable / (Refund due)	-	-

Gross income tax and balance tax payable

Tax rates

The First Schedule to the Inland Revenue Act provides **four rates** of taxes on the taxable income – for the first 06 month of the year of assessment 2022/23.

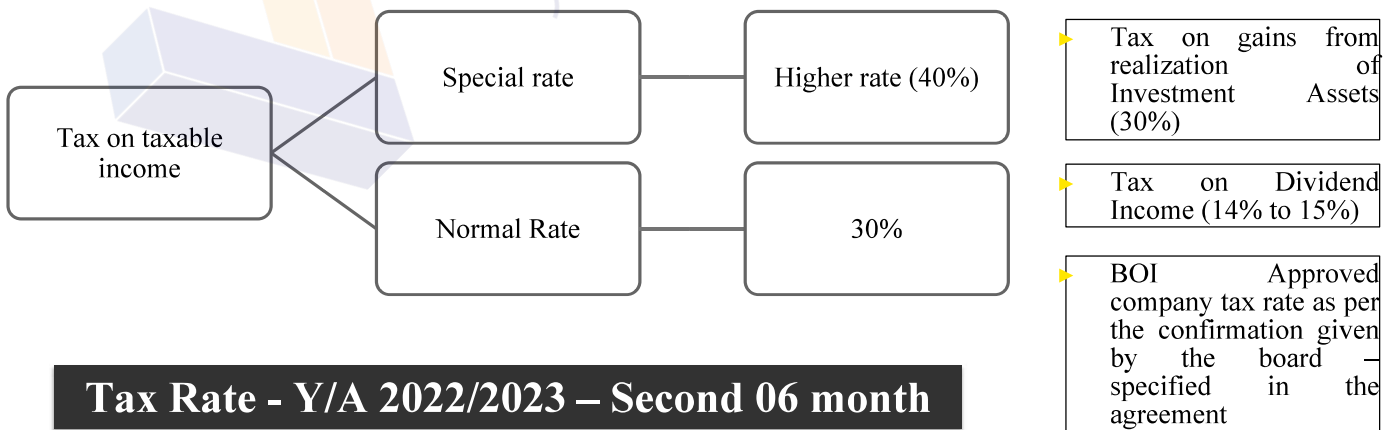


Tax Rate - Y/A 2022/2023 – First 06 month

Gross income tax and balance tax payable

Tax rates

The First Schedule to the Inland Revenue Act provides **Two rates** of taxes on the taxable income – for the Second 06 month of the year of assessment 2022/23.



Tax Rate - Y/A 2022/2023 – Second 06 month

Gross income tax and balance tax payable

The first schedule of the IRA provides the different income tax rates applicable to all taxpayers and on different taxable incomes. Accordingly, in the case of companies there were Five (5) different rates applicable for the period from 01st April 2022 to 30th October 2022 while there are Two (2) different rates with effect from 01st October 2022 as summarized below;

	Up to 30.10.2022	From 01.10.2022
On Capital Gains (Gain on realization of investment Assets)	10%	30%
On Taxable Income taxing at Concessionary Rate	14%	-
On Taxable Income representing manufacturing undertakings	-	-
On Taxable Income taxing at Standard Rate	24%	30%
On Taxable Income taxing at Higher Rate	40%	40%

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Gross income tax and balance tax payable

Standard rate

Up to 30th September 2022 any company not entitled to the reduced tax rate of 14% or 18% and also not liable to the higher tax rate of 40% were taxing at the normal rate of 24%. However, with the Amendment Act, with effect from 01st October 2022 the standard rate has been increased to 30% while no any concessionary tax rates.

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Gross income tax and balance tax payable

The reduced tax rate of 14% is applicable on following gains and profits with effect from 01 January 2020;

Tax rates for companies	Rate
Small and Medium Enterprise (excluding betting and gaming and liquor, Tobacco)	14%
Sale of goods including exports for foreign currency	14%
Entrepot trade	14%
Offshore business without bringing goods to Sri Lanka	14%
Front end services to clients abroad	14%

Gross income tax and balance tax payable

Tax rates for companies	Rate
Headquarter operations of leading buyers for management of financial supply chain	14%
Logistic services such as bonded warehousing	14%
Transshipment operations	14%
Freight forwarding	14%
Supply of services to an exporter of goods or services or to foreign principle for payment in foreign currency - including agent of a ship operator	14%
Manufacture and supply to an exporter of non-traditional goods	14%
Bunkering services	14%
Income generated from the supply of health protective equipment and similar products by BOI companies on the request of Ministry of health, Department of health services, Tri Forces, Sri Lanka Police and COVID centre	14%

Gross income tax and balance tax payable

Tax rates for companies	Rate
Ship repair/refurbishment of marine cargo containers for payment in foreign currency	14%
Provision of computer software, programs or systems or recording computer data for payment in foreign currency	14%
Sale of gem or jewelry in foreign currency made in Sri Lanka	14%
On gains and profits from the consideration received in respect of gems and jewellery	14%
Gains and profits from providing educational services	14%
Gains and profits of an undertaking for the promotion of tourism	14%
Gains and profits from providing construction services	14%
Agro Processing (Agro Farming - Exempt, w.e.f. 01.04.2019 only up to 5 years)	14%
Gains and profits from providing health care services	14%

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Gross income tax and balance tax payable

Tax rates for companies	Rate
Supply of electricity using renewable energy	14%
A company list its shares in Colombo Stock Exchange during the period from 01.01.2021 to 31.12.2021, for year of assessment 2022/2023 to 2024/2025	14%
Gains and profits from dividends received from a resident company (15% for the 3-month period ended 31.12.2022 – pending approval - Public Notice)	14%
Gains and profits from manufacturing (if 14% provided for same income, it can be applied ex: SME, Exports, etc.)	18%
Gains and profits from conducting betting and gaming	40%
Gains and profits from the manufacture and sale or import and sale of any liquor or tobacco product	40%

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Gross income tax and balance tax payable

Tax rates for other bodies	Rate
Partnerships - on income exceeding Rs. 1,000,000	6%
Charitable institutions	14%
Employee Trust Funds, provident, pension or gratuity funds and termination funds	14%
Trusts – First 6 Month	18%
Unit trusts or mutual funds that does not conduct an eligible investment business	24%
Non-governmental organizations - First 6 Month	24%

Gross income tax and balance tax payable

Small and Medium Enterprises (SMEs)

“Small and Medium Enterprise” means a person who satisfies the following conditions (*As amended w.e.f. 01.04.2020*):

- The person who conducts business solely in Sri Lanka other than an individual who is engaged in providing professional services individually or in the partnership being an individual who is professionally qualified;
- the person does not have an associate that is an entity; and
- the person’s annual gross turnover is less than Rs. 500 Million;

Associated companies are treated as SME, if the aggregate turnover of such group of persons does not exceed the turnover threshold of Rs.500 Million.

Gross income tax and balance tax payable

Business of exporting goods and services

A company conducting a business of **exporting goods and services** is entitled to the reduced rate of **14%**.

Exports includes **specified undertaking**:

“Specified undertaking” means (Sec. 195); an undertaking which is engaged in:

- a) Entrepot trade involving import, minor processing and re-export;
 - b) Offshore business where goods can be procured from one country or manufactured in one country without bringing the same into Sri Lanka;
 - c) Providing front end services to clients abroad;
 - d) Headquarter operations of leading buyers for management of financial supply chain and billing operations;
 - e) Logistic services such as bonded warehouse or multi-country consolidation in Sri Lanka;
-

Gross income tax and balance tax payable

- f) Transshipment operations;
 - g) Freight forwarding;
 - h) Sale of gem and jewelry for foreign currency;
 - i) Supply of services to any exporter of goods or services or to any foreign principal of such exporter directly, being services which could be treated as essentially related to the manufacture of such goods or provision of such services exported by such exporter either directly or through any export trading house, including any service provided by an agent of a ship operator to such agent’s foreign principal, and the payment for such services are made by such exporter or foreign principal to such person in Sri Lanka in foreign currency;
 - j) Production or manufacture, and supply to an exporter of non-traditional goods; and
 - k) The performance of any service of ship repair, ship breaking repair and refurbishment of marine cargo containers, provision of computer software, computer programs, computer system or recording computer data, or such other services as may be specified by the minister by notice published in the Gazette, for payment in foreign currency”;
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Gross income tax and balance tax payable

An undertaking for promotion of tourism

For this purpose, the undertaking for promotion of tourism means (1st Schedule); an undertaking for the operation of -

- a) any **hotel or guest house** approved by the Ceylon Tourist Board;
- b) any **restaurant** graded by the Ceylon Tourist Board as being in “Class A” or “Class B”;
- c) any business of **travel agent** who provides travel management services for domestic travel (inbound) in Sri Lanka;
- d) Any business of transporting tourist
- e) any business approved by the Ceylon Tourist Board providing facilities for recreation or sports

Gross income tax and balance tax payable

Agro processing

Agro-processing means the processing of any locally produced agricultural, fishing or animal product and includes an undertaking for the dehydrating, milling, packaging, canning for the purpose of changing the form, contour or physical appearance of such product in preparation for the market but excluding an undertaking of deep-sea fishing or manufacturing.

Tax rate for persons who engage in agro farming together with agro processing or manufacturing

Where a person utilizes agro farming produce produced by him for his agro processing or manufacturing business activity in Sri Lanka, such portion of the tax payable in respect of such agro processing or manufacturing business activity that corresponds to the proportion of the farming produce produced by him to the total farming produce utilized in such agro processing or manufacturing, shall be reduced by twenty-five per centum, for the period of two years of assessment commencing on April 1, 2021.

Gross income tax and balance tax payable

Agro farming – Exempted

“agro farming” means-

- a) the tillage of the soil and cultivation of land with plants of any description, cultivation in green house, bee-keeping, rearing of fish, shrimp farming or animal husbandry, poultry farms, hatchery, veterinary or artificial insemination services;
 - b) the cleaning, sizing, sorting, grading, cutting or chilling of any produce produced out of any activity referred to in paragraph (a) by any person who is engaged in any such activity, in preparation of such produce for the market but excludes the agro or food processing;
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Gross income tax and balance tax payable

Dividends (Public notice PN/IT/2023-01 dated 20.01.2023)

Dividend received or derived by a non-resident during the period from 1st October 2022 to 31st December 2022, is exempt from Income Tax.

Applicable Income Tax rate for dividend received or derived by residents during the period from 01st October 2022 to 31st December 2022 is 15%.

Dividend paid by a resident company to a member to the extent that such dividend payment is attributable to, or derived from, another dividend received by that resident company or another resident company, is exempt from Income Tax, during the period from 01st October 2022 to 31st December 2022.

Dividend distributed by a resident company subject to withholding tax at 15% with effective from 01st January 2023

Computation of tax payable and balance tax payable

Tax rates are applied on the taxable income, in computing gross income tax liability of a company for a year of assessment. The **tax credits are deducted from the gross tax liability** to arrive the balance tax payable.

Taxable income x tax rates as per 1st Schedule xxx

(-) Tax Credits;

Any **other tax credit** allowed under the Act (xx)

Balance Tax payable xxx

Computation of tax payable and balance tax payable

The following tax credits are generally applicable for a company;

Tax Credits	Description
Income Tax Quarterly Installments (self-assessment payments)	The computed income tax liability is to be discharged to the Department of Inland Revenue quarterly under the self-assessment basis .
Withholding Tax	withholding tax deducted under section 84 in respect of investment income is deductible as a tax credit provided such investment income is not a final withholding payment .

Computation of tax payable and balance tax payable

The following tax credits are generally applicable for a company;

Tax Credits	Description
Remittance Tax (RT)	A non-resident person who carries on business in Sri Lanka through a Sri Lankan permanent establishment shall pay tax at the rate of 14% on the remitted profits earned within the year of assessment (Sec. 62).
Refunds	Any finalized refund available for a company.

