

CHAPTER 05: SOURCES OF INCOME

(Assessable Income from Investment)

Lecturer:

Mr. Nuwan Sameera



Learning Outcomes

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

1. Identify the different income items under the investment income.
2. Identify the exempted investment income.
3. Calculate the assessable income from investment.

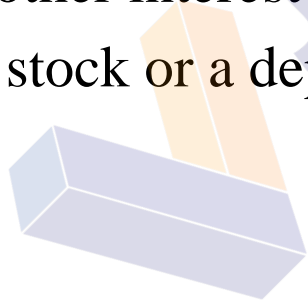


Definition of Investment Income

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.



Type of Investment Income

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; (Capital gain)**
- 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.

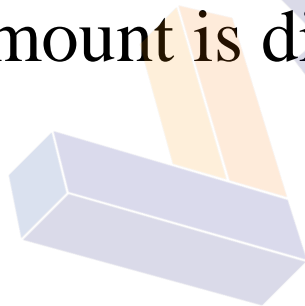
In calculating a person's gains and profits from an investment for a year of assessment the following shall be excluded:

- Exempt amounts and*
- Amounts those are included in calculating the person's income from an employment or business*

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; and
- Whether an amount is distributed or not; and



Advance Income Tax (AIT) or WHT (old name) on dividend income

- Dividend is subject to 15% **final** withholding tax.

Gross dividend received	100
(-)WHT	(15)
Net dividend	85



As a final with holding payment no need to consider dividend as investment income again as 15% WHT deducted dividend received. No tax credit available

Exemption on dividend income

A dividend paid by,

- 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.
- a dividend paid by a resident company which is engaged in any one or more of the following businesses in accordance with the provisions of the PART IV of the Finance Act No. 12 of 2012 and within the meaning of an agreement entered into with the Board of Investment of Sri Lanka established under the Board of Investment of Sri Lanka Law, No.4 of 1978:-
 - trade involving import, minor processing and re-export;
 - offshore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing the same into Sri Lanka;
 - providing front end services to clients abroad; (iv) headquarters operations of leading buyers for management of financial supply chain and billing operations;
 - logistic services such as bonded warehouse or multi- country consolidation in Sri Lanka.

Interest Income

Interest income can be arise from;

- Deposits held in banks & financial institutions
- Investments made in debentures
- Investment made in government securities



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Advance Income Tax (AIT) or WHT (old name) on interest income

- Dividend is subject to 5% withholding tax.

Gross interest received	100
(-)Advance Income Tax	(05)
Net interest	95

As a with holding payment need to consider dividend as investment income and tax credit available when calculating balance tax payable.

Exemption on interest income

- 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 interest accruing to or derived by any person outside Sri Lanka on any loan granted to any person in Sri Lanka or to the Government of Sri Lanka (with effect from 01.04.2018)
- The interest accruing to or derived by any person on moneys lying to his credit in foreign currency in any foreign currency account opened by him or on his behalf, in any commercial bank or in any specialized bank, with the approval of the Central Bank of Sri Lanka (With effect from 01.01.2020)
- Interest accruing to or derived on or after April 1, 2021 by any welfare society formed or setup by Sri Lanka Army, Sri Lanka Navy, Sri Lanka Air Force or Sri Lanka Police. (This will applicable for the Y/A 2021/22)

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;

Calculation of taxable rent income

Taxable Rent = (Gross rent – Expenses incurred for the production of rent income)

Ex: Rates, Loan interest, repair and maintenance expenses

***If the rates are paid by the tenant that rates cannot be deducted.*

Advance Income Tax (AIT) or WHT (old name) on rent income

- Rent is subject to 10 % withholding tax.
- Rent payments made to a resident person where the aggregate payment exceeds or equal to Rs.100,000 per month – 10% on full amount

Gross rent received	100
(-)Advance Income Tax	(10)
Net rent	90

As a with holding payment need to consider dividend as investment income and tax credit available when calculating balance tax payable.

Rent Income Cont.

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 % 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 2023/24.

Mr. Kavija 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/-
- Loan interest Rs.150,000/-
- Repairs & maintenance Rs.25,000/-



Example 02

Determine the tax implication in following scenarios.

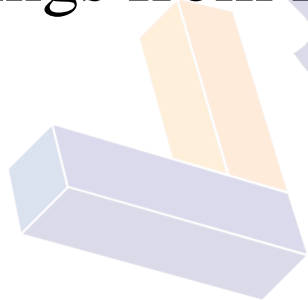
- a) Mr. Silva has rented out his additional house situated in Colombo for Rs.100, 000/- per month. He has paid Rs.75,000/- as rates.

- 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.



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%.



Gains from the realization of investment assets / Capital Gain.

Refer Chapter 5.1 Uploaded material



Q&A?

Thank you



Capital gain Tax

(Inland Revenue Act, No 24 of 2017 and with amendments)

Lecturer:

Mr. Nuwan Sameera



Learning Outcomes

At the end of this chapter you will be able to understanding,

- What is investment asset and capital gains
- How to calculate the capital gains
- Tax liability on capital gains



What is investment asset?

❑ Investment asset means a capital asset held as a part of investment.

❑ Capital asset means each of the following asset

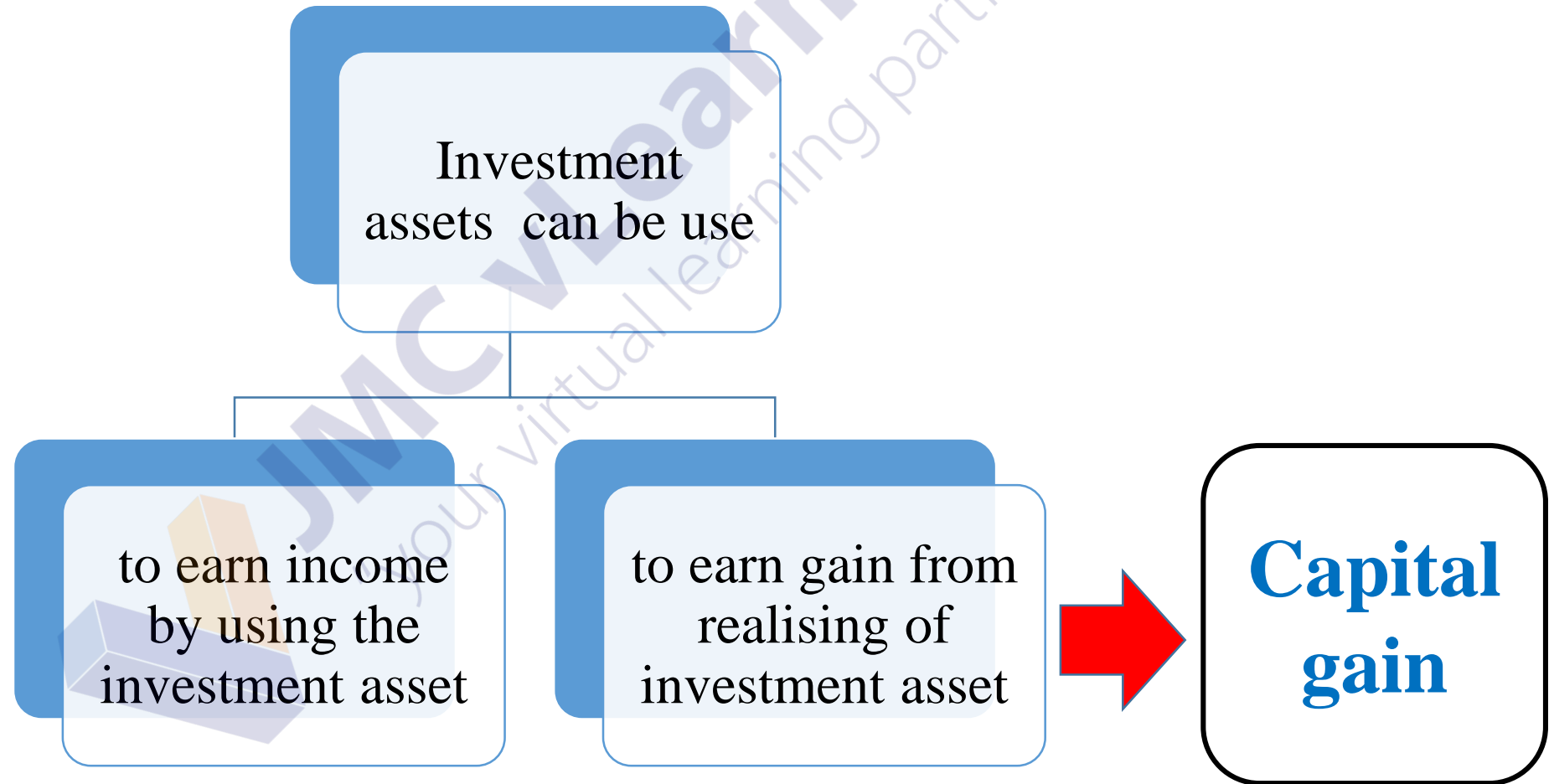
- *land or building*
- *a membership interest in a company (shares), partnership or trust*
- *a security or other financial asset*
- *an option, right or other interest in an asset,*

but exclude trading stock or a depreciable asset.



What is Capital Gain?

- ❑ Gain from the realization of Investment Assets.
- ❑ Investment asset can be use to earn income in following two (02) ways,



Calculation of Capital Gain and Tax rate

Investment asset constructed or purchase *on or before 30th September 2017*

Consideration (*amendment to sec 38*) XXXX

(-) Cost of the asset

market value as at 30/09/2017 (xxx)

expenditure incurred by the person in altering, improving, maintaining or repairing the asset } (xxx)

incidental expenditure incurred by the person in acquiring and realising the asset } (xxx) (XXX)

Capital gains / (losses) XXXX

Investment asset constructed or purchase *after 30th September 2017*

Consideration (*amendment to sec 38*) XXXX

(-) Cost of the asset

expenditure incurred for acquiring the asset (xxx)

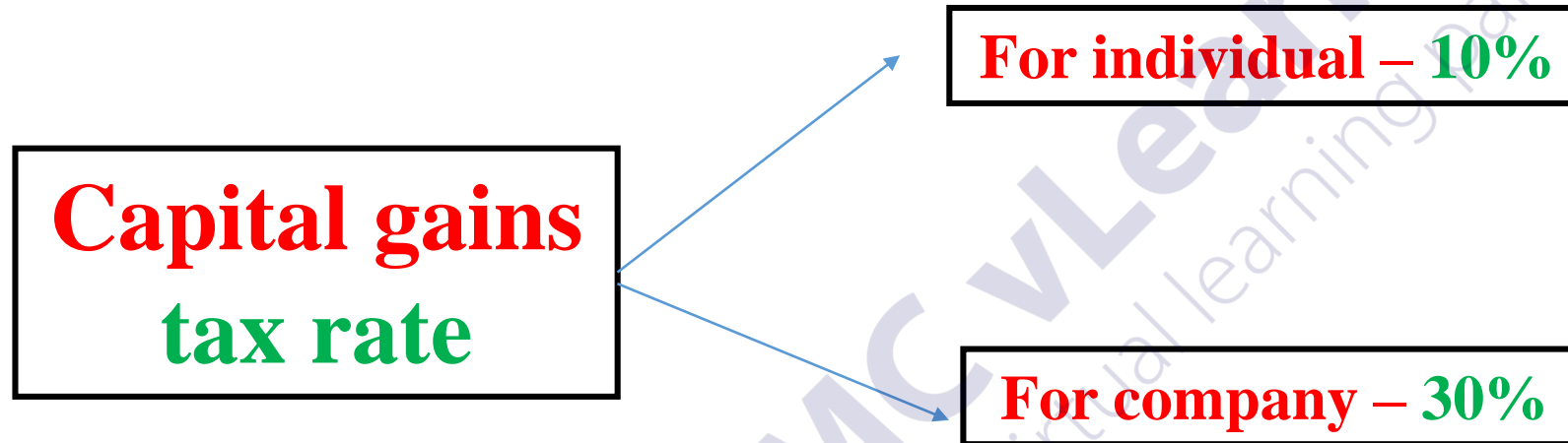
expenditure incurred by the person in altering, improving, maintaining or repairing the asset } (xxx)

incidental expenditure incurred by the person in acquiring and realising the asset } (xxx) (XXX)

Capital gains / (losses) XXXX

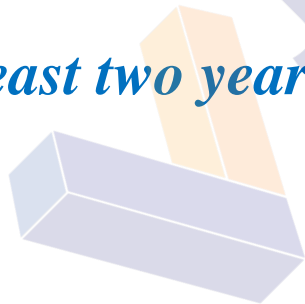
Capital gains Tax = Capital gains X Tax rate

Capital Gain Tax rate



Exemptions on Capital Gains

- gains from realisation of quoted shares listed in Colombo stock exchange.
- gains from realization of an investment asset that does not exceed Rs. 50,000 and the total gains does not exceed Rs. 600,000 in the year of assessment.
- gains from the realization of principal place of residence, if the following two(02) criteria are met (*only for the individuals*);
 - *It has been owned by the individual continuously for the three years before disposal and,*
 - *Lived in at least two years of those three years (calculated daily basis)*

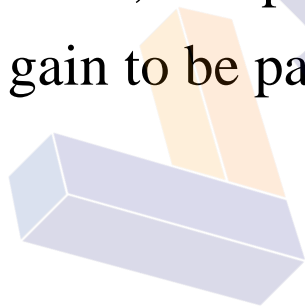


Example 03

- ISL intends to sell a land which has been recorded as an investment asset in the books of account for a consideration of Rs. 9,500,000 at 2023/24.
- This land was purchased at a cost of Rs. 3,670,000 in 2000 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.
- Per the recent changes made to the income tax law through the imposition of the Inland Revenue Act No. 24 of 2017, the accountant of ISL wishes to know the following:

Required:

- Based on the above facts, compute the capital gain tax on the sale of this land.
- Due date of capital gain to be paid to IRD.



THANK YOU



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