



CA SRI LANKA STRATEGIC LEVEL

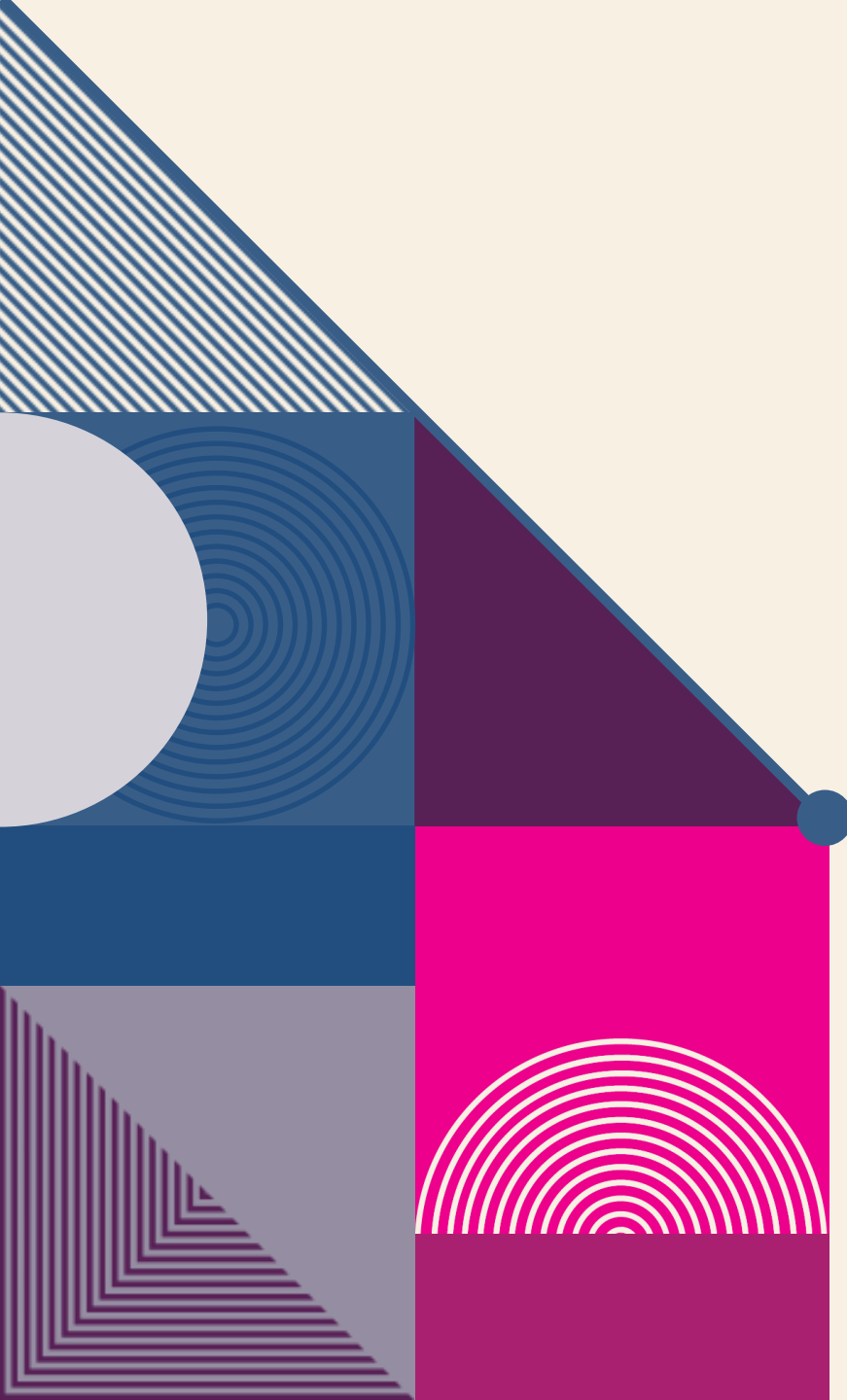
STRATEGIC TAX PLANNING

**TUTORIAL 05 - COMPUTATION OF INCOME
TAX LIABILITY**

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CONTENT

Introduction

Tax on Taxable Income

Tax on the Withholding Payment

Taxation of a Company

Tax rates applicable for a Company

Computation of Income Tax Liability

INTRODUCTION

Charging Provision (Sec. 2(1))

Income tax shall be payable for each “year of assessment” by.

A “person” who has “taxable income” for that year, or

A person who receives A “final withholding payment” during that year.

Accordingly, A “person” is chargeable with income tax when such person has taxable income or receives final withholding payment. The period of tax is identified as “year of assessment”

INTRODUCTION

Accordingly, the amount of income tax payable by a person for any year of assessment shall be the total of the following:

- | | |
|-------------------------------------|------------|
| a) Tax on taxable income | xxx |
| b) Tax on final withholding payment | <u>xxx</u> |
| | <u>xxx</u> |



TAX ON TAXABLE INCOME

TAX ON TAXABLE INCOME

- **Taxable Income (Sec. 3)**

The taxable income shall be computed as follows.

Assessable income from “employment”	XXX
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>

The taxable income of each person and the assessable income from each source shall be determined separately.

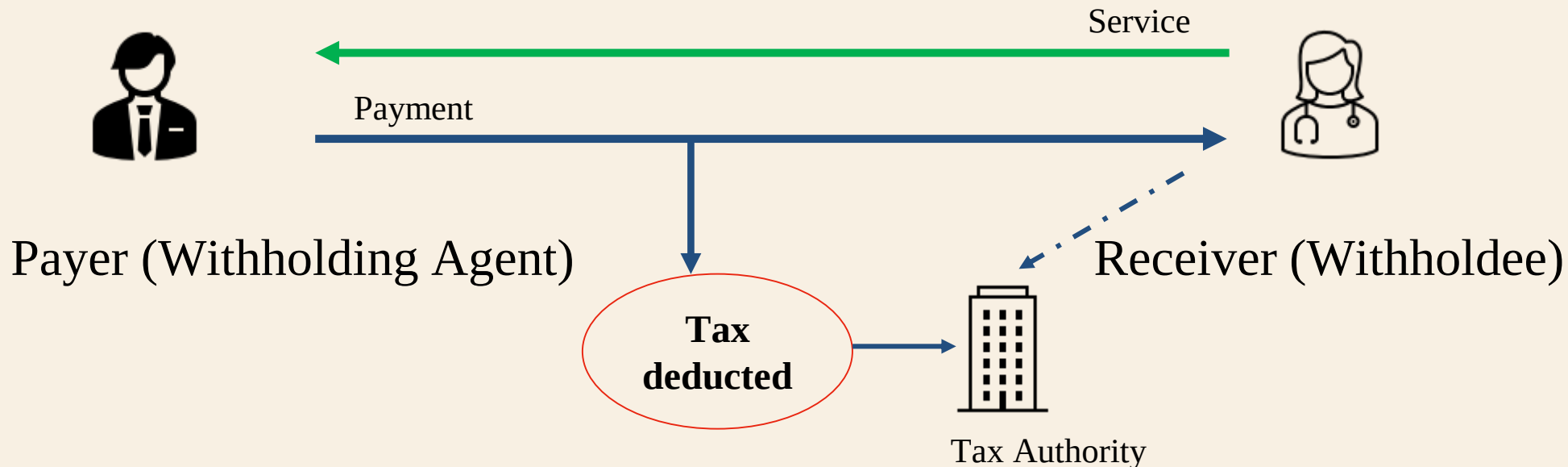


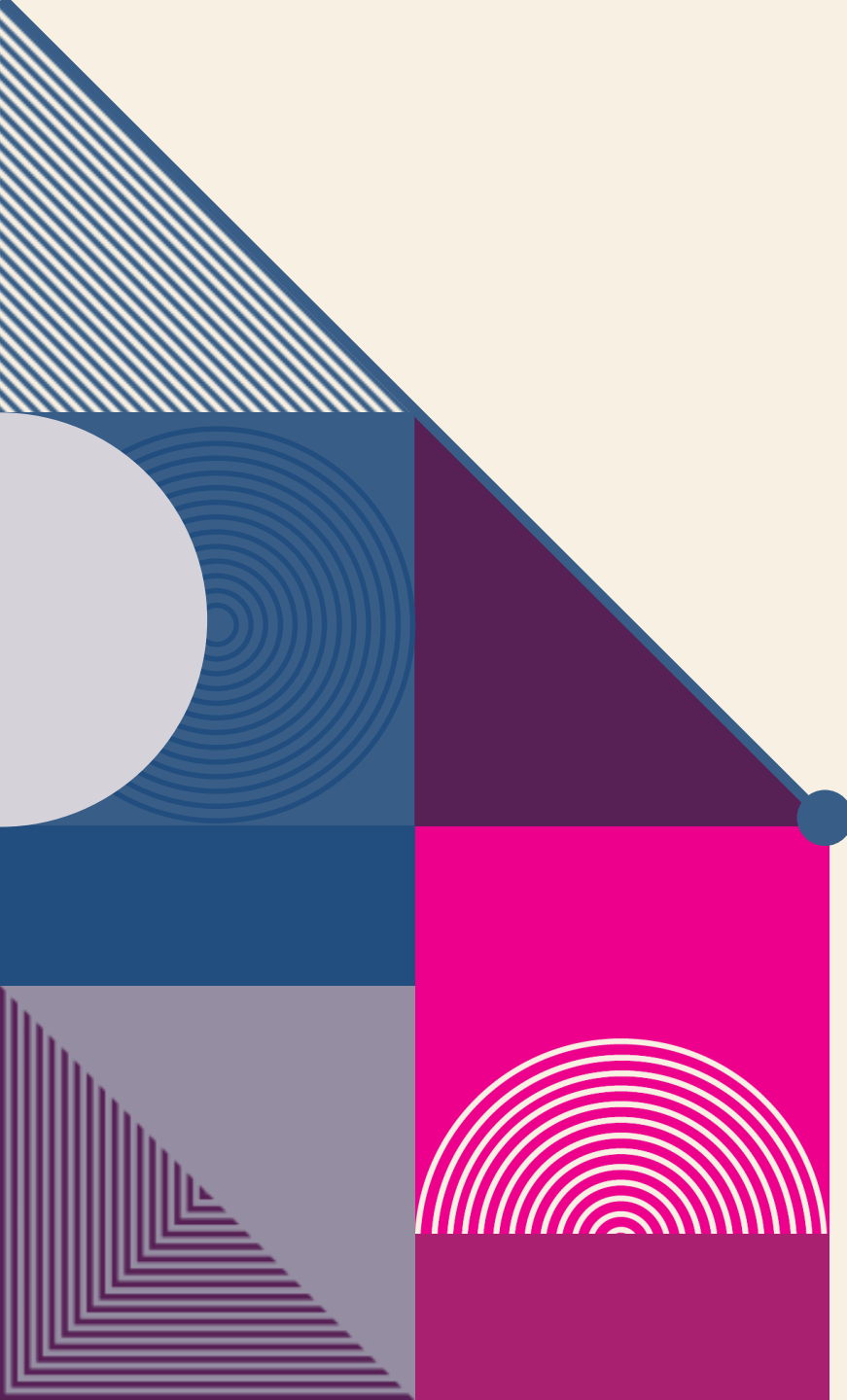
TAX ON FINAL WITHHOLDING PAYMENT

TAX ON FINAL WITHHOLDING PAYMENT

- Tax on final withholding payment (**Sec. 88**)

Withholding Tax – It is a method of Tax payment



A decorative geometric pattern on the left side of the slide. It features a large light blue circle, a dark blue square with concentric circles, a dark purple triangle, a bright pink square with a white semi-circular pattern, and a grey square with a dark purple diagonal line pattern.

TAXATION OF AN INDIVIDUAL

TAX RATE APPLICABLE FOR AN INDIVIDUAL

TAX ON TAXABLE INCOME

For a Resident Individual

Assessable income from “employment ”	XXX
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Assessable income from “business”	XXX
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Assessable income from “investment”	XXX
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Assessable income from “other sources”	<u>XXX</u>
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Total Assessable Income	XXX
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Less: Qualifying payments and relief 52 (5 th Schedule)	<u>(XX)</u>
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Taxable Income	<u>XXX</u>
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Tax liability for the year

Taxable Income X Tax rate	XXX
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Less. Tax credits

Foreign Tax credits (if any)	XXX
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Advance personal Income Tax	XXX
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Withholding/Advance Income Tax (other than final withholding)	XXX
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Installment tax payment	<u>XXX</u> <u>(XXX)</u>
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Balance tax payable/(refund due)	<u>XXX</u>
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TAX ON TAXABLE INCOME

Taxable Income and Tax Rate – First Schedule [Para 1]

Special rate - Higher tax rate

- **Gains and profits from the manufacture and sale or import and sale any liquor or tobacco product – 45%**
- **Gains and profits from conducting betting and gambling – 45%**

Special rate – Concessionary tax rate (Maximum)

- **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%**
- **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%**

TAX ON TAXABLE INCOME

Taxable Income and Tax Rate – First Schedule [Para 1]

Special rate – Concessionary tax rate (Maximum)

On terminal benefits from employment

Not exceeding Rs. 10,000,000	0 % of the amount in excess of Rs.0
Exceeding Rs. 10,000,000 but not exceeding Rs. 20,000,000	6 % of the amount in excess of Rs.10,000,000
Exceeding Rs. 20,000,000	Rs. 600,000 plus 12 % of the amount in excess of Rs. 20,000,000

TAX ON TAXABLE INCOME

Taxable Income and Tax Rate – First Schedule [Para 1]

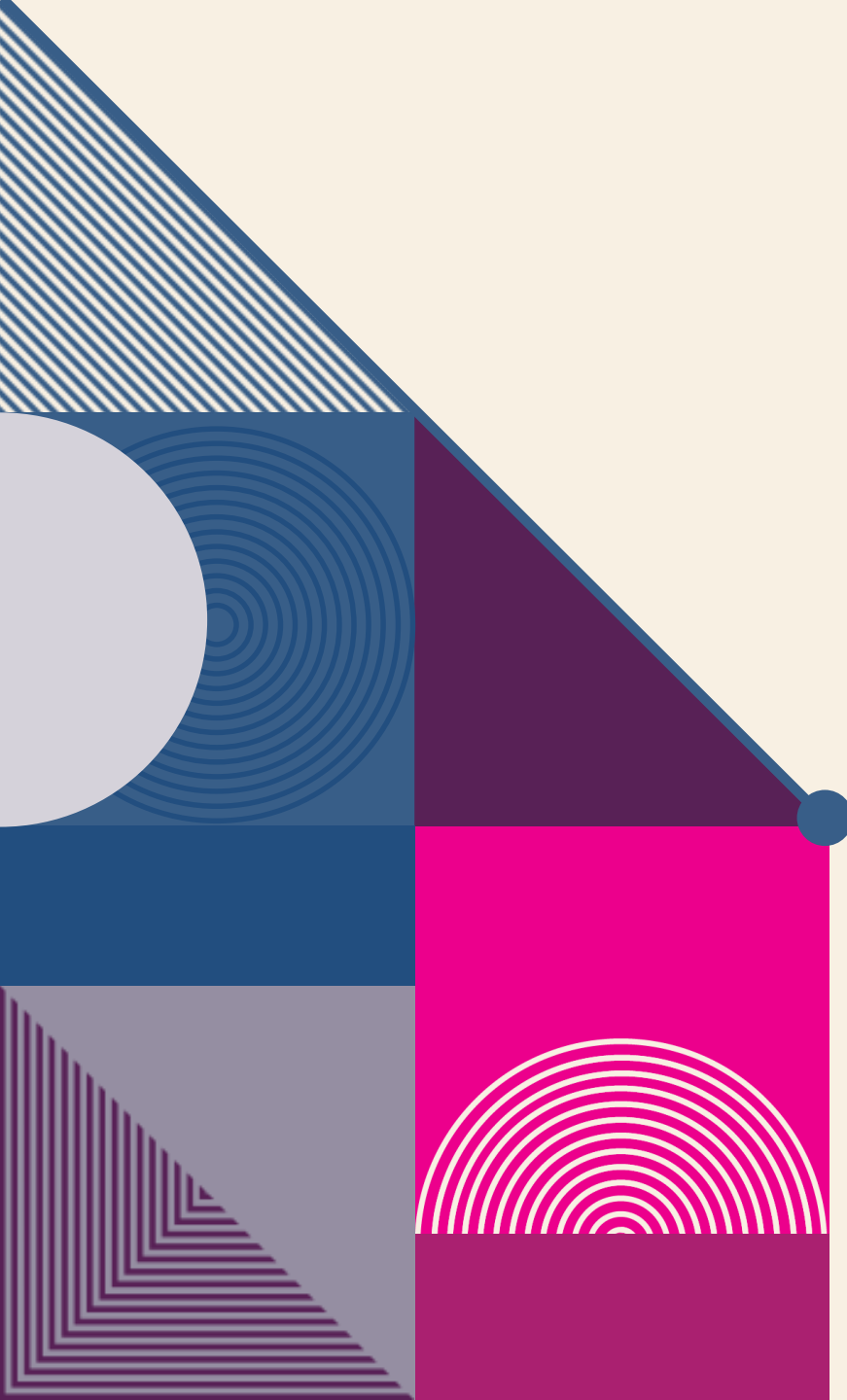
Not exceeding Rs. 1,000,000	6 % of the amount in excess of Rs.0
Exceeding Rs. 1,000,000 but not exceeding Rs. 1,500,000 in excess	Rs. 60,000 plus 18% of the amount of Rs. 1,000,000
Exceeding Rs. 1,500,000 but not exceeding Rs. 2,000,000	Rs. 150,000 plus 24% of the amount in excess of Rs. 1,500,000
Exceeding Rs. 2,000,000 but not exceeding Rs. 2,500,000	Rs. 270,000 plus 30% of the amount in excess of Rs. 2,000,000
Exceeding Rs. 2,500,000	Rs. 420,000 plus 36% of the amount in excess of Rs. 2,500,000

Where an Individual's taxable income includes **gains from the realization of investment assets – 10%**
[With effect from 01.10.2022]

TAX ON TAXABLE INCOME

For a Resident Individual

Assessable income from “employment ”	XXX
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 relief 52 (5 th Schedule)	<u>(XX)</u>
Taxable Income	<u>XXX</u>
<u>Tax liability for the year</u>	
Taxable Income X Tax rate	XXX
Less. Tax credits	
Foreign Tax credits (if any)	XXX
Advance personal Income Tax	XXX
Withholding/Advance Income Tax (other than final withholding)	XXX
Installment tax payment	<u>XXX</u> <u>(XXX)</u>
Balance tax payable/(refund due)	<u>XXX</u>



TAXATION OF A COMPANY

TAXATION OF A COMPANY

Company shall be liable to tax separately from its share holders.

All business activities of a company shall be treated as conducted in the course of a single company business, unless different tax rates are applicable.

Taxation of share holders

1. Resident company – Dividends
2. Non-resident company – profit remittance



TAX RATES APPLICABLE FOR A COMPANY

TAX ON TAXABLE INCOME

Taxable Income and Tax Rate – First Schedule [Para 4]

Special rate - Higher tax rate

- **Gains and profits from the manufacture and sale or import and sale any liquor or tobacco product – 45%**
- **Gains and profits from conducting betting and gambling – 45%**

Special rate – Concessionary tax rate

- **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%**
- **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%**

TAX ON TAXABLE INCOME

Taxable Income and Tax Rate – First Schedule [Para 4]

**Other than above taxable income of a company is liable for income tax at 30%
[With effective from 01.10.2022]**

**Where a company's taxable income includes gains from the realization of
investment assets – 30% [With effective from 01.10.2022]**



TAX RATES APPLICABLE FOR ADVANCE INCOME TAX/ADVANCE PERSONAL TAX/WITHHOLDING TAX

WITHHOLDING TAX /ADVANCE INCOME TAX

Withholding Tax rate – First Schedule [Para 10]

- Sec. 83A (1A) Withholding by employer (Employment remuneration)
 1. In the case of a resident employee - at the rates specified by the Commissioner General and published in the Gazette (APIT Table 1, 2, 3, 5, 6, 7 and 8)
 2. In the case of a non-resident employee - at the rates specified by the Commissioner General and published in the Gazette (APIT Table 4)

WITHHOLDING TAX /ADVANCE INCOME TAX

Withholding Tax rate – First Schedule [Para 10]

- Sec. 84A (1A) Withholding from investment returns.
 1. Rent payments made to a resident person where the aggregate payment does not exceed Rs. 100,000 per month – 0%;
 2. Rent payments made to a resident person where the aggregate payment exceeds Rs. 100,000 per month – 10% on full amount;
 3. Interest or discount paid – 10%
 4. All other payments except dividend – 14%;
 5. Dividend paid-15%.
- Sec. 84 (2) National Gem and Jewellery Authority shall withhold tax at the rate of 2.5% from the sale price of any gem sold at an auction conducted by it, from the sum payable to the seller of such gem and at the time of such sum is paid to the seller.

WITHHOLDING TAX /ADVANCE INCOME TAX

Withholding Tax rate – First Schedule [Para 10] Contd..

- Sec. 84 (3) Withholding from investment returns shall not applied to.
 - a) Payments subject to withholding under the employment remuneration (Sec. 83 A (A1);
 - b) Payments made by individuals, unless made in conducting a business;
 - c) Interest paid to a financial institution on the ordinary loans and advances provided by it; or
 - d) Interest or discount paid to any person on Security or Treasury Bond or Treasury Bill ; or
 - e) Payments or allocations that are exempt amounts under Sec 9.

WITHHOLDING TAX /ADVANCE INCOME TAX

Withholding Tax rate – First Schedule [Para 10] Contd..

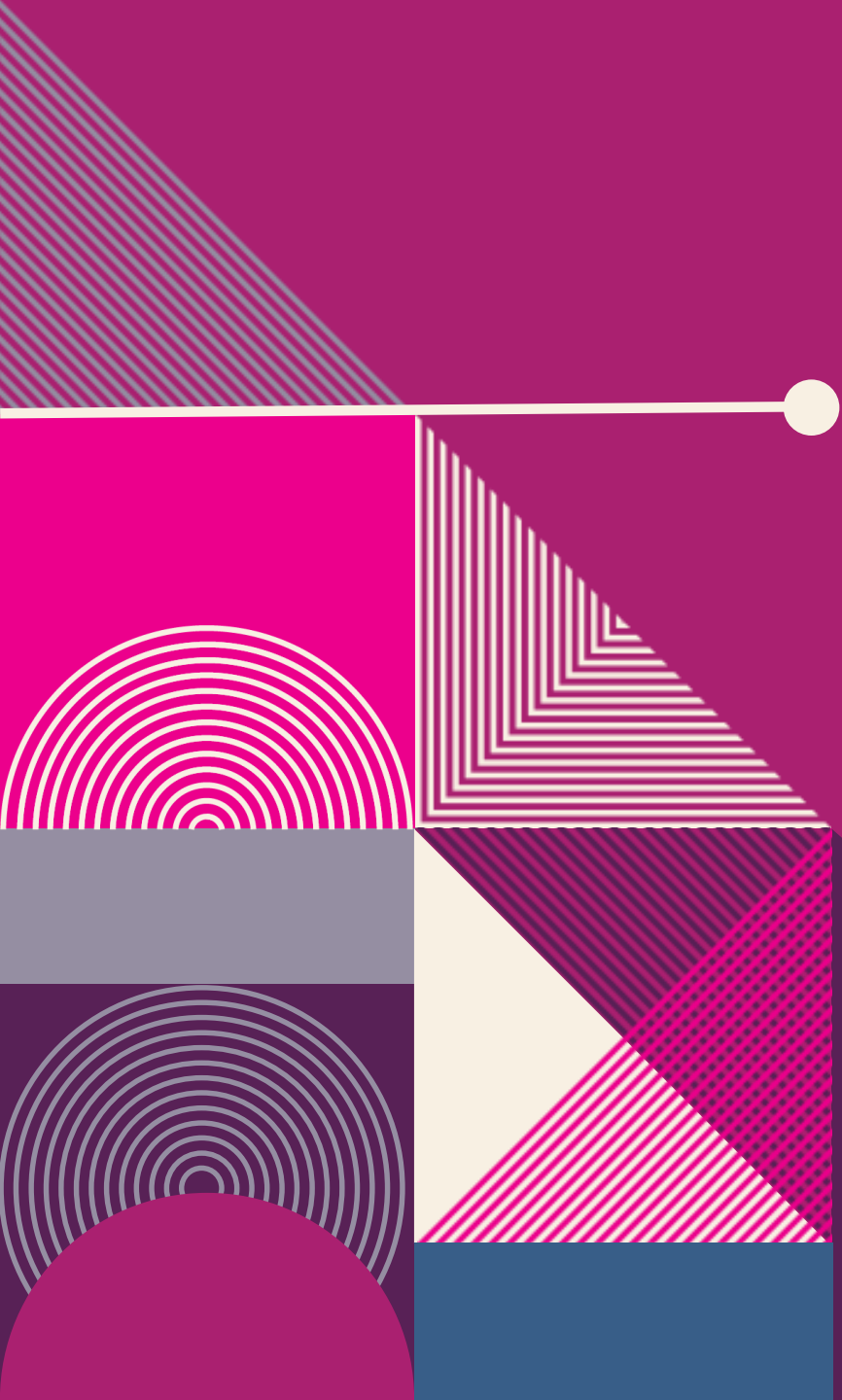
- Sec. 85 (1) Withholding from service fees and contract payments and payments to non resident
- 85 1 (1B) Person shall withhold tax on the payment, where such person pays a service fee or an insurance premium with a source in Sri Lanka to a non- resident person - 14%

WITHHOLDING TAX /ADVANCE INCOME TAX

Withholding Tax rate – First Schedule [Para 10] Contd..

- Sec. 85 (1) Withholding from service fees and contract payments and payments to non resident
- 85 1 (1C) Where a person pays a service fee with a source in Sri Lanka to a resident individual who is not an employee of the payer
 - ✓ For teaching, lecturing, examining, invigilating or supervising an examination 5%
 - ✓ As a commission or brokerage to a resident insurance, sales or canvassing agent 5% or
 - ✓ For services provided by such individual in the capacity of independent service provider such as doctor, engineer, accountant, lawyer, software developer, researcher, academic 5%

Provided however, this subsection shall not apply to a service payment which does not exceed Rs.100,000 per month.



COMPUTATION OF INCOME TAX LIABILITY FOR A COMPANY

TAX ON TAXABLE INCOME

For a Resident company

Assessable income from “business”

xxx

Assessable income from “investment”

xxx

Assessable income from “other sources”

xxx

Total Assessable Income

xxx

Less: Qualifying payments 52 (5th Schedule)

(xx)

Taxable Income

xxx

Tax liability for the year

Taxable Income X Tax rate

TAX ON TAXABLE INCOME

For a Resident company

Assessable income from “business”	XXX
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Assessable income from “investment”	XXX
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Assessable income from “other sources”	<u>XXX</u>
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Total Assessable Income	XXX
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Less: Qualifying payments 52 (5 th Schedule)	<u>(XX)</u>
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Taxable Income	<u>XXX</u>
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Tax liability for the year

Taxable Income X Tax rate	XXX
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Less. Tax credits

Foreign Tax credits (if any)	XXX
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Withholding/Advance Income Tax (other than final withholding)	XXX
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Installment tax payment	<u>XXX</u> (XXX)
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Balance tax payable/(refund due)	<u>XXX</u>
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TAX CREDIT

1. Advance Income Tax/Withholding Tax – As above
2. Foreign tax Credit
3. Self assessment Installment tax payment - Discussed

TAX CREDIT

2. Foreign tax Credit (Sec 80)

A resident person may claim a foreign tax credit for a year of assessment for any foreign income tax paid by the person and to the extent to which the foreign income tax is paid with respect to the person's assessable foreign income for the year.

Foreign Tax Credit shall be calculated separately for each year of assessment and separately for assessable foreign income from each employment, business, investment or other source and further separately for each gain from the realisation of an investment asset; and with respect to each calculation, shall not exceed the average rate of Sri Lankan income tax of the person for the year applied to the person's assessable foreign income.

TAX CREDIT

2. Foreign tax Credit (Sec 81)

A foreign tax credit shall be allowed under this section only if the foreign income tax is paid within two years after the end of the year in which the foreign income to which the tax relates was derived by the resident person or within such further time as the Commissioner General may allow.

Any foreign tax credit or part of a foreign tax credit allowed under this section for a year that is not credited shall not be refunded, carried back to the preceding year or carried forward to the following year and, in the case of the realisation of an investment asset, shall not be credited in relation to the realisation of another investment asset

ADVANCE INCOME TAX ON DIVIDENDS PAID

Where a resident company distributes dividends to shareholders, if such distribution is attributable to profit from the business it shall be liable for advance income tax at 15%.

Company shall withhold the tax at the time of payment of such dividends and remit to the Commissioner General within fifteen days after the end of each Calander month where any tax has been withheld during the month (on or before 15th day of the following month).

Tax so withheld on dividend paid by a resident company shall be final withholding payment.

TAX ON TAXABLE INCOME

For a Non-Resident company

Assessable income from “business”	XXX
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Assessable income from “investment”	XXX
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Assessable income from “other sources”	<u>XXX</u>
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Total Assessable Income	XXX
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Less: Qualifying payments 52 (5 th Schedule)	<u>(XX)</u>
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Taxable Income	<u>XXX</u>
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Tax liability for the year

Taxable Income X Tax rate	XXX
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Less. Tax credits

Withholding/Advance Income Tax (other than final withholding)	xxx
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Installment tax payment	<u>xxx</u> <u>(xxx)</u>
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Balance tax payable/(refund due)	<u>xxx</u>
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TAX ON PROFIT REMITTANCE

Where a Non- resident company, which carries on business in Sri Lanka through a Sri Lankan permanent establishment, shall pay tax on remitted profits earned within the year of assessment. (Ex. Branch office of a non-resident company)

Company shall withhold the tax at 14% at the time of remittance of such profit and remit to the Commissioner General within fifteen days after the end of each Calendar month where any tax has been withheld during the month (on or before 15th day of the following month).

TAX ON PROFIT REMITTANCE

If a non-resident person retained the total income earned in any year of assessment commencing on or after April 1, 2021 in Sri Lanka for a minimum period of three years commencing from the first day of the immediately succeeding year of assessment in which the income is earned and invested the same in Sri Lanka to expand its business or to acquire shares or securities from the Colombo Stock Exchange licensed by the Securities and Exchange Commission of Sri Lanka or to acquire any treasury bill, treasury bond or Sri Lanka International Sovereign Bond issued on behalf of the Government of Sri Lanka, the tax rate on remittances of such retained income invested shall be zero percent.

PROFIT REMITTANCE

“remitted profits” means

- amounts remitted or
- retained abroad out of the profits and income of the non-resident person that are subject to income tax in Sri Lanka, and
- any amount received outside Sri Lanka by or on behalf of the non-resident person from conducting business in Sri Lanka that is subject to income tax in Sri Lanka, excluding dividends paid by a resident company to the nonresident person.

TAX ON PROFIT REMITTANCE

Country 1

