

SESSION 05

Tax Dispute Resolution Mechanisms

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Tax Dispute Resolution

- ✓ Building on the overview of the dispute resolution landscape, this section provides the systematic framework for managing a tax dispute from start to finish. You will learn the practical methodologies professionals use to analyze, strategize, and execute a defense against a tax assessment.
- ✓ This section provides you with the systematic approach for managing a tax dispute from initial assessment to final resolution. The goal is to apply a consistent, risk-responsive process that protects taxpayer rights and builds a defensible tax position.

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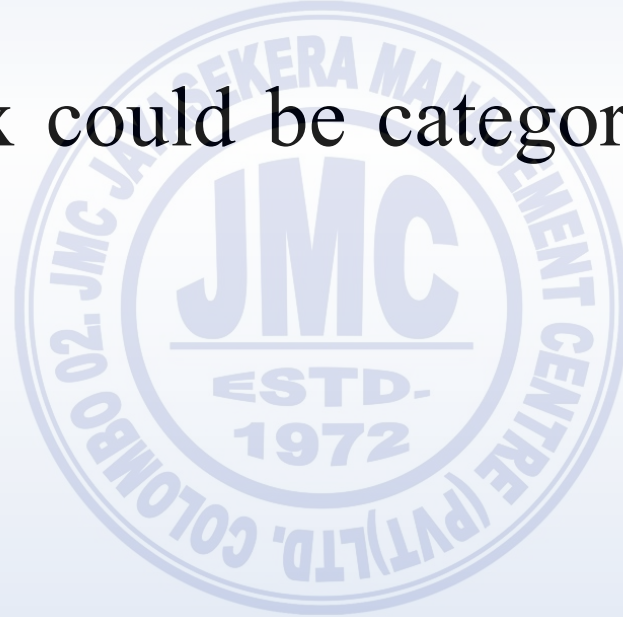
The main stages of the dispute resolution process

- ✓ **Assessments and Appeals:** Analyzing the assessment and navigating the formal procedures for challenging a tax determination through administrative and judicial channels.
- ✓ **Preparation of written Submissions:** Developing a defensible position by constructing persuasive arguments based on verified facts and strong legal grounds.
- ✓ **Financial Consequence Analysis:** Calculating and managing the potential impact of tax in default, including penalties and interest charges.
- ✓ **Recovery and Enforcement:** Understanding recovery actions available to tax authorities and the corresponding taxpayer protection mechanisms.
- ✓ **Proactive Resolution:** Using tax rulings and advance agreements to gain certainty on tax positions and prevent future disputes.

Payment of income tax and due dates

Payment of income tax could be categorized in to three types as follows,

1. By withholding
2. By installments
3. On assessment



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Payment by installments (*self assessment*)

Due dates for quarterly installments if the year of assessment ends 31st March,

- ❖ *1st Quarter - On or before 15th August of that year of assessment*
- ❖ *2nd Quarter - On or before 15th November of that year of assessment*
- ❖ *3rd Quarter - On or before 15th February of that year of assessment*
- ❖ *4th Quarter - On or before 15th May of the subsequent year of assessment*

If any person has obtained approval to apply a different Y/A under sec.20, quarterly payment should be made before 15th day following end of each quarter.

How to calculate

As per the sec.90(3) of the act, installment tax payable is to be calculated using following formula:

$$\text{Installment payment} = \frac{\text{Estimate tax payable for the Y/A} - (\text{Installment payments} + \text{APIT Paid})}{\text{Remaining no. of installment for Y/A}}$$

Statement of Estimated Income Tax Payable

As per the sec. 91 of the Inland Revenue Act No. 24 of 2017 each person who is liable to pay income tax is required to submit a statement of estimated tax payable for a year of assessment by the due date of 1st installment. If the estimate is changed subsequently a revised statement should be submit.

Payment on Assessment

- Tax on gains from realization of investment assets should be paid within one month from the end date of the realization month.
- Any other tax payable on assessment should be paid before the end of the six months from the end of the relevant year of assessment.

Eg:- for Y/A 2025/26 – should pay on or before 30/09/2026

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Assessments and Appeals

- ✓ Applying the systematic framework for dispute resolution, this subsection provides comprehensive procedural guidance for the first formal step: challenging a tax assessment. You will learn to distinguish between assessment types and navigate the specific processes of appeals.
- ✓ The assessments and appeals process is the formal procedure you use to challenge a tax assessment issued by the revenue authority. Its purpose is to correct errors of fact or law while preserving all statutory rights to dispute the liability.
- ✓ An incorrect assessment creates immediate financial risk and potential penalties for the taxpayer.

Furnishing of income tax return

- Every person chargeable with income tax for any Y/A (subject to the following exclusion) is required to furnish a return with the commissioner-General not later than eight months after the end of each year of assessment.
- Eg:- for Y/A 2025/26 – return should be submitted on or before 30/11/2026.

As per the section 94 of the act, a return of income for a year of assessment **shall not be required** if,

- A. Resident individual-an individual whose tax payable for the year of assessment under paragraph (a) of subsection (1) of section 2 relates exclusively to income from employment
- B. A non-resident person who has no tax payable for the Y/A

Furnishing Capital Gain Tax Return

Every person with taxable income consisting of a gain from the realisation of an investment asset shall file with the Commissioner General a capital gains tax return within thirty days after the end of the relevant calendar month in which the realisation occurred. *Sec. 93(3)*

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Analyze the Tax Assessment

Tax Assessment

Definition: A determination of tax liability for a specific period (year of assessment) made by the Commissioner-General or deemed to arise under the Inland Revenue Act.

Legal Basis: Inland Revenue Act, No. 24 of 2017 (as Amended)

Application: Forms the legal basis for the collection and recovery of tax.

Relevance: Triggers payment obligations, penalties, interest, and statutory rights to object or seek administrative review (appeal)

Example: The Commissioner-General issues an amended assessment to your client demanding Rs. 1.5 million in additional VAT arising from disallowed input credits for the last quarter. You identify the assessment as an amended assessment, verify that it was issued within the statutory time limits, calculate the 30-day objection period from the notice date, and examine whether the disallowance is supported by law and evidence.

Key areas to examine include:

- ✓ Identify the type of assessment (self, default, advance, or amended/additional) to determine its legal effect.
- ✓ Verify the calculation basis, statutory authority, and applicable time bar provisions
- ✓ Determine the dead line for lodging an objection or administrative review(appeal) from the date of service of the notice of assessment.

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Tax Assessment Types

- ✓ Self-Assessment – Establish tax liability based on taxpayer's return
- ✓ Default Assessment – Determine liability where return is not filed
- ✓ Advance Assessment – Determine liability before return is filed
- ✓ Amended/ Additional Assessment – Correct errors or recover under paid tax

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Self-Assessment *Sec.132*

- Under the Inland Revenue Act, a return of income furnished by a taxpayer in the approved form constitutes a self-assessment. Upon filing, the return is deemed to be an assessment for that period and establishes the taxpayer's tax liability as declared.
- Although a self-assessment does not involve an assessment notice issued by the Commissioner-General, it creates an immediately enforceable obligation to pay tax in accordance with the return. Errors or omissions in a self-assessment may later give rise to an amended assessment issued by the Commissioner-General.
- **When analyzing a self-assessment, you should:**
 - ✓ Verify that all sources of income, deductions, reliefs, and tax credits have been correctly disclosed.
 - ✓ Confirm that the applicable tax rates and statutory provisions have been properly applied.
 - ✓ Retain documentary evidence supporting all material declarations in anticipation of potential review or amendment.

Default Assessment *Sec.133*

Where a taxpayer has failed to file a tax return for a tax period as required under this Act, the Assistant Commissioner may, based on such evidence as may be available and to the best of his or her judgment, make an assessment (hereinafter referred to as a “default assessment”) of the tax (including a nil amount) payable by the taxpayer for the period. (Sec. 133(1))

Default assessment specifying the following

- ✓ The amount of tax assessed.
- ✓ The amount assessed as penalty (if any) payable in respect of the tax assessed.
- ✓ The amount of late payment interest (if any) payable in respect of the tax assessed.
- ✓ The tax period to which the assessment relates.
- ✓ The due date for payment of the tax, penalty, and interest, being a date that is not less than thirty days from the date of service of the notice.
- ✓ The manner of objecting to the assessment.

Advanced Assessment *Sec.134*

May be made before the date on which the taxpayer's tax return for the period is due; and shall be made in accordance with the law in force at the date the advance assessment was made. (sec.134(3))

Advanced assessment specifying the followings,

- (a) The amount of tax assessed;
- (b) The amount assessed as penalty (if any) payable in respect of the tax assessed;
- (c) The tax period to which the assessment relates;
- (d) The due date for payment of the tax and penalty, which may be a date before the tax would otherwise be due for the tax period;
- (e) The manner of objecting to the assessment.

Amended Assessments *Sec.135*

- Where the Commissioner-General is satisfied that an assessment does not reflect the correct tax liability, whether due to omission, incorrect disclosure, or other reasons, an amended assessment may be issued in accordance with Section 135 of the Inland Revenue Act. An amended assessment replaces or varies the prior assessment and creates a new enforceable tax liability to the extent of the variation.
- An amended assessment does not, by itself, imply negligence or misconduct. Penalties arise only where the statutory conditions for their imposition are satisfied under the Act.
- In responding to an amended assessment, you must:
 - ✓ Examine the grounds on which the assessment has been amended and the statutory authority relied upon.
 - ✓ Review the revised calculations and factual assumptions underpinning the amendment.
 - ✓ Verify that the amended assessment was issued within the statutory time limits prescribed by Section 163.
 - ✓ Determine whether to accept the amendment or lodge a valid objection within the prescribed period.

Time Bar Provision for Amended Assessments *Sec.135 (2)*

Subject to subsection (3), the Assistant Commissioner may amend a tax assessment under subsection (1):

- (a) In the case of fraud, or gross or wilful neglect by, or on behalf of, the taxpayer, at any time; or
- (b) In any other case, within thirty months of:
 - (i) For a self-assessment, the date that the self-assessment taxpayer filed the self-assessment return to which the self-assessment relates;
 - or
 - (ii) For any other assessment, the date on which the Assistant Commissioner served notice of the assessment on the taxpayer.

Time Bar Provision for Amended Assessments *Sec.135(3A)*

- Subject to subsection (4), where the Assistant Commissioner has served a notice of an amended assessment on a taxpayer under subsection (1), the Assistant Commissioner may further amend the original assessment to which the amended assessment relates, within:
 - (a) The period specified in paragraph (b) of subsection (2); or
 - (b) A period of one year after the Assistant Commissioner served the notice of the amended assessment on the taxpayer,whichever occurs later.

In any case to which paragraph (b) of subsection (3A) applies, the Assistant Commissioner is restricted to amending the alterations or additions made in the amended assessment to the original assessment. (sec.135(4))

Comparison of Tax Assessment Types

Attribute	Self-Assessment	Default Assessment	Advance Assessment	Amended / Additional Assessment
Purpose	Establish tax liability based on taxpayer's return	Determine liability where return is not filed	Determine liability before return is filed	Correct errors or recover underpaid tax
Legal Basis	Return deemed to be an assessment under the Act	Issued by Commissioner-General for non-compliance	Issued based on best judgment prior to return	Issued under Section 163 of the Inland Revenue Act
Typical Triggers	Filing of a tax return	Failure to file a return	Anticipated tax liability, non-submission of return	Audit findings, omissions, disallowed deductions
Right to Object	Not applicable unless amended	Yes	Yes	Yes
Response Deadline	N/A (taxpayer initiates)	30 days from date of assessment	30 days from date of assessment	30 days from date of assessment
Key Defence Strategies	Ensure accurate disclosure and documentation	Challenge estimation basis, invoke time bar	Challenge assumptions and estimation	Challenge legal basis, factual findings, and timing

Compile Substantiating Evidence

The burden of proof lies with the taxpayer to demonstrate that an assessment, other than a self-assessment, is excessive or incorrect. A successful appeal depends on the quality, relevance, and organization of supporting evidence. You must compile a structured evidence file that directly addresses each issue raised in the assessment.

The required procedures are:

- Gathering all relevant financial records, contracts, invoices, and correspondence.
- Identifying applicable provisions of tax law, regulations, and judicial precedents.
- Organizing evidence to correspond precisely with each ground of appeal.

Appealing Procedures

1. Appeal to CGIR (Administrative Review)
2. Appeal to Tax Appeal Commission
3. Appeal to Court of Appeal (will discuss under Strategic Level)
4. Appeal to Supreme Court (will discuss under Strategic Level)

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Appointing an Authorized Representative

As per the Sec.195 Authorized Representative can define any of,

- a). In any case
 - Member of ICASL
 - An attorney-at-law
 - An employee regularly employed by that person or,
 - A member of the Sri Lanka Institute of Taxation
 - Registered person as an auditor
- b). In the case of individual, a relative
- c). In the case of company, a director or the secretary
- d). In the case of partnership, a partner of that partnership
- e). In the case of body of person, a member of such body

Administrative review (Appeal)

Section 139

In lodging an appeal under Section 139, the taxpayer must:

- ✓ Submit a written notice of appeal to the Commissioner-General within thirty days (30) from the date of service of the assessment, clearly stating the grounds upon which the objection is made.
- ✓ Specify each disputed matter separately, with precise references to the relevant facts and applicable provisions of tax law.
- ✓ Pay the amount of tax not in dispute at the time of submitting the appeal, as a condition precedent to the validity of the appeal.
- ✓ *Refer Appendix A for appeal submission quality checklist*

Appeal to Tax Appeals Commission

Navigate Administrative Review and Appeals

- Where an appeal is disallowed, the taxpayer must follow a sequential statutory process. This involves an administrative review by the Commissioner-General, followed, if necessary, by a formal appeal to the Tax Appeals Commission. Each stage is governed by distinct legal provisions and procedural requirements.
- The Tax Appeals Commission is an independent, quasi-judicial body whose determinations are binding on both the taxpayer and the Commissioner General, subject only to further appeal to court on questions of law.

Following an unfavorable final determination by the Commissioner-General, the taxpayer may:

- ✓ *Lodge an appeal with the Tax Appeals Commission within thirty days (30) of service of the final determination, in accordance with Section 14 of the Tax Appeals Commission Act.(Act, No. 23 of 2011)*
- ✓ *File the appeal directly with the Tax Appeals Commission, together with the prescribed fee and supporting documentation.*
- ✓ *Use the Revenue Administration Management Information System (RAMIS) only for objections and administrative review proceedings before the Commissioner-General, and not for appeals to the Commission.*

✓ **Refer Appendix B**

Tax in Default, Penalties and Interest

❖ A tax in default occurs when a taxpayer fails to pay the correct amount of tax by the statutory due date. This event triggers the immediate application of penalties and the accrual of interest under the Inland Revenue Act, No. 24 of 2017. You must identify the exact date and amount of the default to establish the foundation for all subsequent calculations.

Follow these steps:

- ✓ Verify the statutory due date for the specific tax payment from the relevant legislation.
- ✓ Compare the actual payment date and amount against the assessment to identify any shortfall.
- ✓ Document the exact amount of tax unpaid and the number of days overdue.

Calculate Late Payment Penalties

Tax legislation imposes a statutory regime for late payment of tax to encourage timely compliance and compensate for the time value of money lost to the revenue authority. This regime consists of:

- ✓ A statutory penalty under Section 179 for unpaid tax.
- ✓ Late payment interest under Section 157 for the period the tax remains unpaid.

The required procedures are:

- ✓ Determine the principal amount of tax unpaid as at the statutory due date
- ✓ Apply the late payment penalty: 20% of the unpaid tax if payment is not made by the statutory due date (Section 179)
- ✓ Apply late payment interest (if applicable): Interest is calculated on the unpaid tax at the statutory rate (currently 1.5% per month or part thereof) until the tax is fully paid (Section 157)
- ✓ Document the total exposure, separating penalties and interest
- ✓ For example, refer **Appendix C**

Application of Sec. 179

- ✓ A person who fails to pay all or part of a tax due for a tax period within fourteen days of the due date, or by the due date specified in the notice of assessment, if later, shall be liable to a penalty equal to twenty per cent of the amount of tax due but not paid. *Sec.179(1)*
- ✓ A person who fails to pay all or part of an instalment required under this Act within fourteen days of the due date for the instalment shall be liable to a penalty equal to ten per cent of the amount of tax due but not paid. *Sec.179(2)*
- ✓ Where an extension is granted under section 151, a person shall not be liable to a penalty under subsection (1) unless the extension period expires without payment having been made. *Sec.179(3)*

Recovery Action Under Tax Legislation

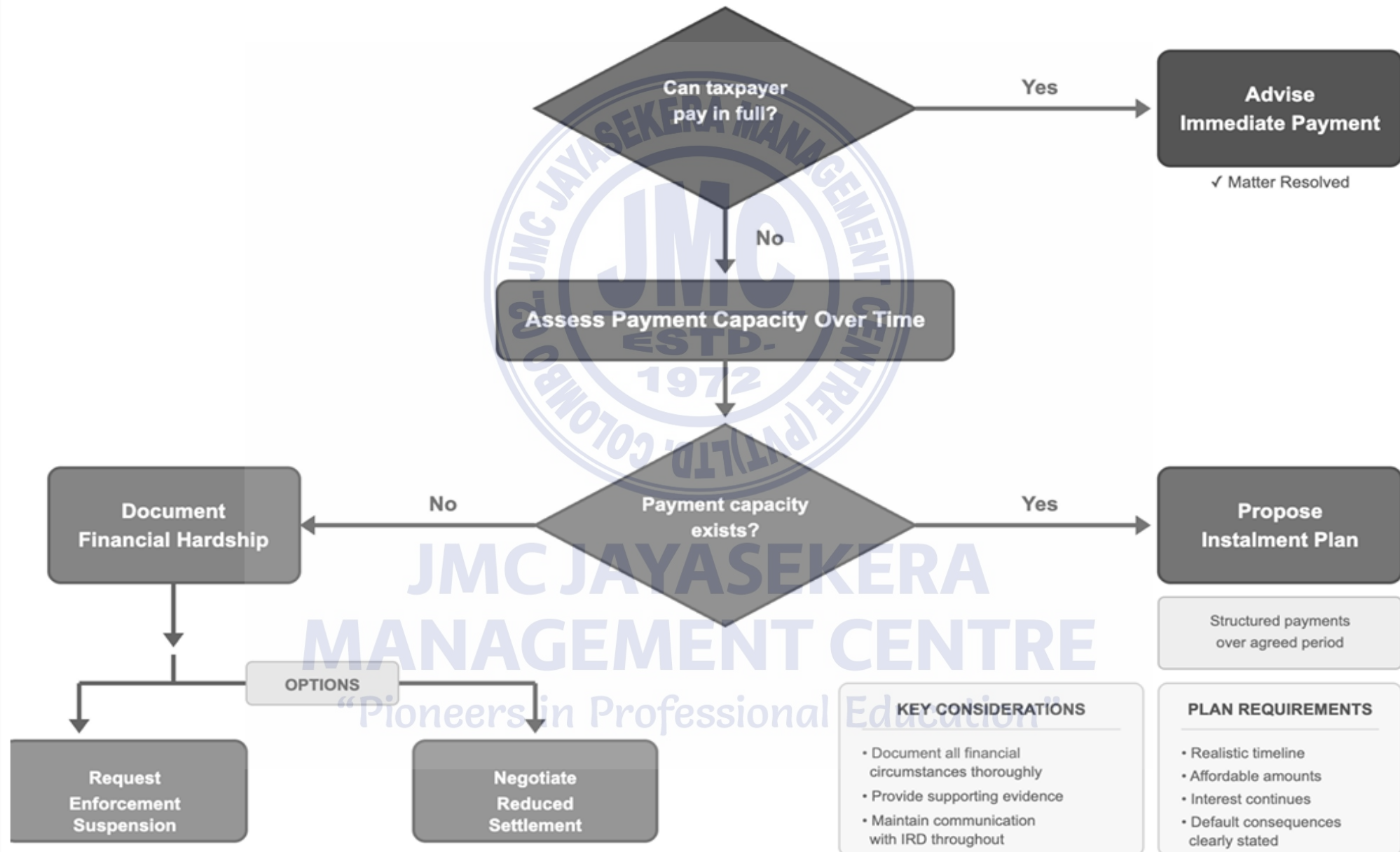
- ✓ When tax liabilities, including penalties and interest, remain unpaid, tax authorities can initiate formal recovery actions. This subsection examines these enforcement measures, focusing on the balance between collection powers and the protection of taxpayer rights.
- ✓ Recovery action analysis is the process you use to manage enforcement measures taken by tax authorities to collect unpaid taxes. The primary goal is to protect taxpayer assets while ensuring all actions comply with applicable legislation.
- ✓ You need this knowledge because recovery actions pose direct threats to business continuity and stakeholder value. These measures can freeze bank accounts, seize assets, and damage commercial relationships. Your intervention ensures the tax authority acts within legal limits while protecting the taxpayer from unlawful enforcement. This expertise enables you to negotiate favorable outcomes and challenge procedural errors that could invalidate recovery actions.

✓ *Refer Appendix 4*

Recovery Action Under Tax Legislation

Comparison of Recovery Methods				
Recovery Method	Target Assets	Legal Prerequisites	Impact on Operations	Your Response Strategy
Tax Lien	Real and personal property	Final assessment, notice of default	Restricts property transactions, affects credit	Verify registration validity, negotiate release terms
Garnishment	Bank accounts, receivables	Valid notice to third parties	Immediate cash flow disruption	Challenge amount calculation, protect minimum balances
Asset Seizure	Physical business assets	Court order or warrant	Potential business closure	Identify exempt assets, verify procedural compliance

Negotiate Payment Arrangements



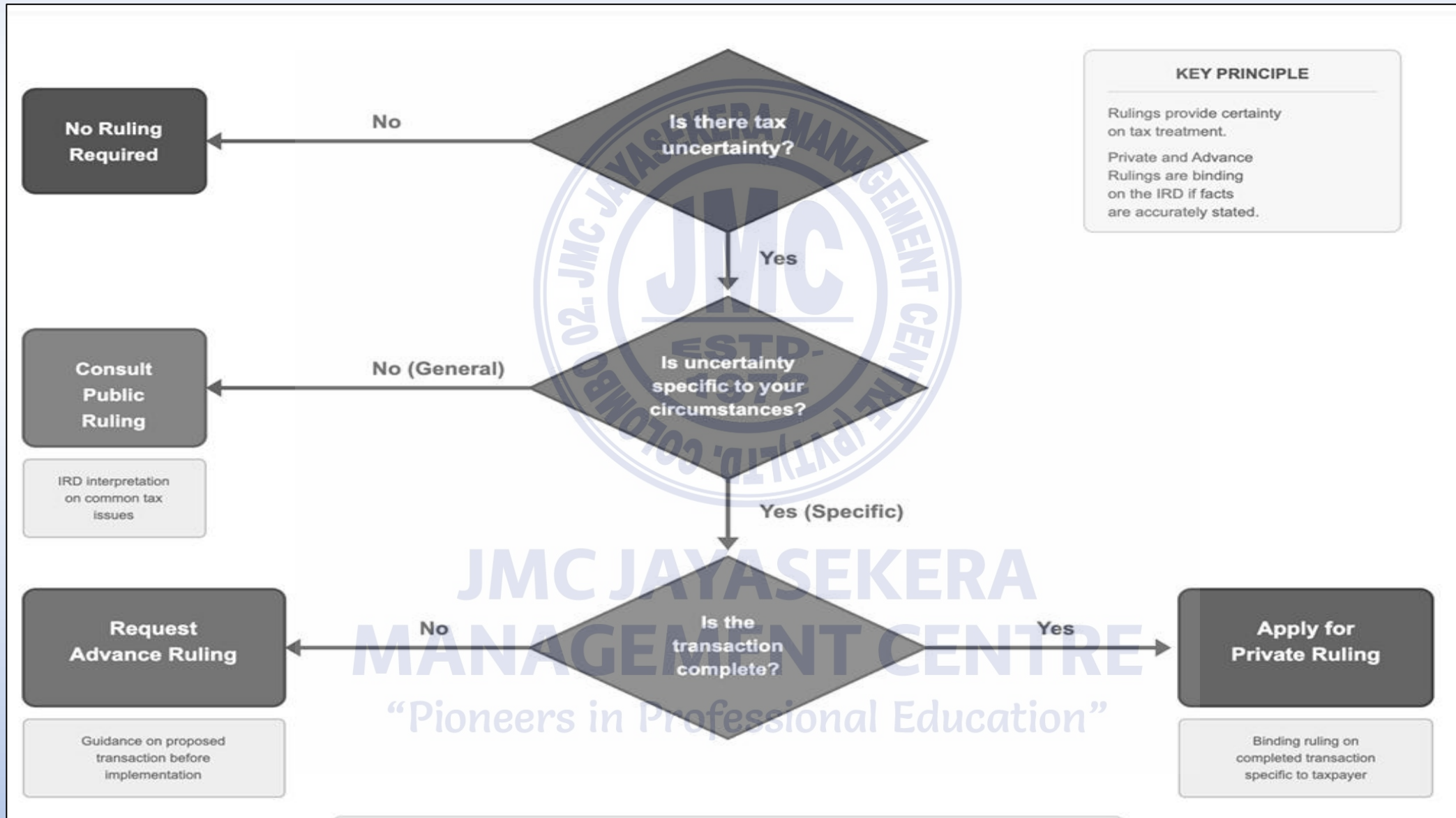
Types of Rulings Under Tax Legislation

- ✓ Tax rulings are the process you use to gain official certainty from tax authorities on the treatment of specific transactions. The goal is to proactively manage tax risk and prevent disputes before they arise.
- ✓ Tax legislation often contains ambiguities that create uncertainty for novel or complex transactions. A formal ruling from the tax authority provides the highest level of assurance for managing this risk. You must evaluate whether the transaction's characteristics warrant seeking official guidance to establish a defensible tax position.

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Select the Appropriate Ruling Type



Select the Appropriate Ruling Type

Comparison of Tax Ruling Types				
Ruling Type	Purpose	Applies To	Binding Nature	Primary Use Case
Public Ruling	Provides general interpretation of tax law for broad application	All taxpayers	Generally binding on authority	Compliance with common transactions
Private Ruling	Confirms tax treatment of specific completed transaction and proposed future transaction	Specific taxpayer	Binding on authority for that taxpayer	Post-transaction certainty