

(304) CORPORATE & PERSONAL TAXATION

CHAPTER 03: SOURCES OF INCOME (Assessable Income from Employment)

Lecturer:

Mr. Nuwan Sameera

Learning Outcomes

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

1. Identify the main sources of income for person.
2. Identify the different income item under the employment income.
3. Identify the excluded/exempted income under the employment income.
4. Calculate the assessable income from employment.
5. Application of the advance personal income tax.

Content

1. Sources of income for person
2. Types of income item under employment income
3. Excluded and exempted item from employment income
4. Non cash benefit for employees
5. Calculate the assessable income from employment
6. Advance personal income tax (APIT)
7. Obligations of an employer under the APIT scheme

Main Sources of Income

- Employment Income (Section 5) – Cash Basis
- Business Income (Section 6) – Accrual Basis
- Investment Income (Section 7) – Cash Basis
- Other Income (Section 8)

In addition to that , Section 9 explain exempted income in all of above sources. If any income exempt ,no need to pay tax on such income even it is a source of income.

Employment Income

➤ Before going to calculation, following words to be clarified.

- 1. Employment** – Is a contract of employment to render service. Include past , present , future service
- 2. Employer** – Is the person who employ employees .
- 3. Employee** - Is the person who render service for agreed benefits.
- 4. Primary Employment** – Primary employment declared by employee.
- 5. Secondary Employment** – All other employment other than primary employment.

Employment Income

Cont..

➤ An individual's income from an employment for a year of assessment shall be the individual's gains and profits from the employment for that year of assessment.

<u>Cash Benefits</u>	
• Regular Benefits	XXX
• Terminal Benefits	XXX
Non-Cash Benefits	XXX
Employment Income	XXXX

Calculation of Employment Income

Now we can move in to the study of way of calculate employment income,

- **Income to be included**
- **Income to be excluded**
 - **Income exempted**

Calculation of Employment Income - Income to be included (Cash Benefits)

- Payment of salary, wages, leave pay, overtime pay, fees, pensions, commissions, gratuities, bonuses and other similar payments.
- Payment of personal allowances, including any cost of living, subsistence, rent, entertainment or travel allowance.
- Payments providing discharge or reimbursement of expenses incurred by the individual or an associate of the individual.
- Payments for the individual's agreement to conditions of employment.
- Payments for redundancy or loss of termination of employment.
- Payment or transfers to another person for the benefit of the individual or an associate person of an individual.
- Other payments, including gifts received in respect of employment.

Calculation of Employment Income - Cont.

Income to be included

- Retirement contributions made to a retirement fund on behalf of the employee and retirement payments received in respect of the employment.

Calculation of Employment Income -

Income to be excluded

- Reimbursement of expenses incurred by the individual on behalf of the employer.
- Discharge or reimbursement received on dental ,medical, health insurance to all employees in equal terms.
- Any benefits that are administratively difficult to allocate.
- Value of employee share option in exercising the option.
- Contribution made by employer to an employee on pension, provident or saving fund approved by CGIR.
- Exempt amounts and final withholding payments

Calculation of Employment Income - Exempted Income

- Capital sums paid as a compensation or gratuity in relation to **personal injuries or death**.
- **Pension** received to Sri Lankan Government employees.
- Investment income (Interest) on Employees Trust Fund after 1st April 1987.
- Amounts received from Provident Fund which is approved by CGIR.
- Benefits derived by a Government employee, from a road vehicle permit granted to such employee.

Calculation of Employment Income - Value of Non-Cash Benefits

- **How to ascertain non cash benefits,**
- Market value basis or*
 - If market value not available – Value specified by the CGIR*

Type of Non-Cash Benefits

- Value of Company shares awarded by Employer
- Value of benefits from any residence provided by the Employer (Housing Benefits)
- Value of Transport Facilities provided by the Employer (Vehicle Benefits)
- Other non-cash benefits provided by the Employer

Value of Company shares awarded by Employer

- Value of any benefit accruing to any employee of an employer, from the allotment of any share or awarding an option to acquire any share, to such employee means: the excess, if any, of the market value of such share at the time allotted under an employee share scheme, reduced by the employee's contribution for the shares as the case may be.

Example 01

Mr. Sarath is a Finance Manager at reputed public limited company and particular company granted 1000 shares at Rs. 12 per each. Market price per share is Rs. 20.

Required – Calculate the value of share awarded by the employer for the purpose of tax calculation.

Value of Housing Benefits *(refer circular SEC 12022 I E/0 5 (Revised))*

Value of any benefit of any place of residence provided by the employer, in respective situations, should be the market value or value specify as follows where the market value is not ascertainable.

(a) Value of benefit for any place of residence provided by the employer, in respective situations, should be the amount specified as follows;

Description	Amount of Non-Cash Benefit for the Relevant Month		
	In Rated area	In Unrated area	Estate Bungalows
The Residence is provided by the employer	12.5% of Salary of the relevant month	10 % of Salary of the relevant month	7.5% of Salary of the relevant month

Example 02

Mr. Somasundara works as a executive officer at ABC PLC. His monthly remuneration is Rs. 300,000 and company has provided a house to him for resident purpose. Calculate the housing benefit under each independent scenarios?

1. If monthly rental Rs. 100,000 paid by the company?
2. If house is own by company and located at rated area?
3. If house is own by company and located at un rated area?
4. If house is own by company and located at state bungalow area?

Value of Vehicle Benefits

Under this we have to evaluate following scenarios,

1. If vehicle can use partly/fully for private use - **benefit to the employee**
 - i. If maintain proper record
 - a. Motor Vehicle (irrespective of the engine capacity) – **Rs. 25 Per Km** (*maximum benefit should not exceed Rs. 20,000 per month*)
 - b. Motor Bicycle (irrespective of the engine capacity) – **Rs. 5 Per Km**
 - ii. If not maintain proper record
 - c. Motor Vehicle (Prefer value specified by the CGIR) – **Refer Table Given**
 - d. Motor Bicycle
 - With Fuel – **Rs. 5,000 per month**
 - Without Fuel - **Rs. 3,000 per month**

Value of Vehicle Benefits

If record not maintain – Motor vehicle

(a) The value of benefit from the private use (partly) of any motor vehicle provided by the employer

Type of the Vehicle	Amount of Non-Cash Benefit for the Relevant Month (Rs.)		
	Vehicle	Driver	Fuel
Any Vehicle	20,000	10,000	20,000

➤ *If an employee provided with more than one vehicle for official or private use, only one vehicle should be considered as provided for private use and as the benefit from employment for APIT tax purpose.*

Value of Vehicle or Fuel provide under any circular, directive or Regulation issue in that behalf by the government

- A. The value of the benefit shall be 25% of the cost incurred by the employer, for the payment of any amount to the employee for using a vehicle owned or rented by that employee, where such employer should provide a vehicle or pay an amount in lieu of providing a vehicle (fully or partly) for official use to that employee, under any Circular, Directive or Regulation issued in that behalf by the Government.
- B. Where any employee is required to be provided with a vehicle (fully or partly) for official use and entitled to a payment for fuel under any Circular, Directive or Regulation issued in that behalf by the Government, such part of the cost incurred by the employer as attributable to 25% of the fuel quantity for which the employee is entitled under such Circular, Directive or Regulation, shall be the value of the benefit to be included.
- C. Where an employee is provided fuel for more than one vehicle, the **paragraph A above** is applied only for one vehicle from the primary employment and/or secondary employment as the case may be.
- D. The aggregate of the cost incurred by the employer/employers for vehicle and fuel of all additional vehicles shall be the value of benefit to be included.

Example 03

Other Non-Cash Benefits

Other Non-Cash Benefits provided by the Employer

	Nature of Non-Cash Benefit for Employee	Amount of Non-Cash Benefit
(a)	Provision of Hotel Facilities for expatriates	100% of the cost
(b)	Loans on Concessionary Interest Rates	0% of the Cost
(c)	Provision of Electricity and Gas etc.	100% of the cost
(d)	Provision of Medical Benefits	100% of such medical bills
(e)	Provision of free meals	100% of the cost
(f)	A discharge or reimbursement of the person's dental, medical or health insurance expenses where the benefit is not available to all full-time employees on in the same grade of the service, on equal terms	100% of the cost
(g)	Payment of telephone bills	50% of the cost
(h)	Air tickets (other than official purposes)	100% of the cost
(i)	Payment of Tax	Amount of Tax paid

Terminal Benefits / Retirements Benefits

The following retirement benefits or termination benefits are taxable at lower rates under employment income.

- Retiring Gratuity
- Commuted Pension
- Compensation for loss of office or employment *if uniformly applicable*
- Withdrawals from ETF.

Special Note:

Any receipt of compensation at the time of retirement which is not paid on a uniform basis is taxable at normal rates.

Advance Personal Income Tax (APIT)

- Employee whose **salary** for a month exceeds Rs. 100,000 per month or Rs. 1,200,000 for a year of assessment, an **Advance Personal Income Tax** could be deducted by employer. (This scheme is called as “**Advance Personal Income Tax**” (APIT)).
- Salary means gains and profits from employment received in Cash to such employee
- Every employer is required to deduct income tax from the gains and profits from employment of each employee who is liable to pay income tax, at the time of such salary paid.
- Deduction of tax from remuneration should be made by applying the appropriate tax table specified by the CGIR.

Advance Personal Income Tax (APIT) Cont.

Specified tax table as follows,

Type of Income	Relevant Table
Regular profit from employment, of any resident employee (who has given consent) or any non-resident employee but citizen in Sri Lanka who has furnished Primary Employment Declaration	Table 01
A Lump-sum payments	Table 02
A once-and-for-all payment (Terminal Benefits) irrespective of consent of the employees	Table 03
Payment received by the non-residents other than citizen in Sri Lanka – irrespective of consent	Table 04

Advance Personal Income Tax (APIT) Cont.

Specified tax table as follows,

Type of Income	Relevant Table
Where the monthly regular profits of an employee from a primary employment is less than Rs. 100,000 per each month but the cumulative profits from the primary employment up to any month of the year of assessment exceeds Rs 1,200,000 due to the higher remuneration in certain months, in such instances	Table 05
A payment or reimbursement of the employee's tax liability on his income from employment by the employer	Table 06
Remuneration of any employee, who is not furnished a Primary Employment Declaration, or who has more than one employment	Table 07

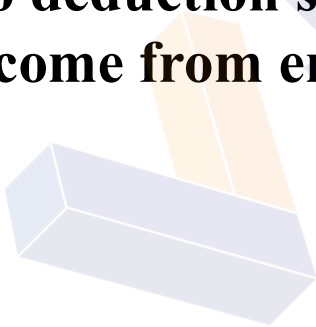
Obligations of an Employer Under the APIT Scheme

Specified tax table as follows,

- Deduct APIT from the gross remuneration of the employee who has given the consent to deduct APIT.
- Remit APIT deducted from employee's gross remuneration to the Commissioner General
- of Inland Revenue (CGIR) on or before the 15th day of the following month.
- Issue a tax deduction certificate (T10 Certificate) to the employees on or before 30th April of the immediately succeeding year of assessment or within 30 days from the date of an employee who is ceased employment.
- Furnish Annual Statement of APIT to the CGIR on or before 30th April of the immediately succeeding year of assessment.
- Keep records of payment of remuneration as per the forms specified by the CGIR.

Deduction of Expenses from Employment Income

No deduction shall be made in calculating a person's income from employment (Sec.10)



Example 04

Mr. Tony is a citizen of United States and is employed in Sri Lanka for a period of four years from August 01, 2018. He has received the following benefits from his employer X Ltd for the year of assessment 2022/2023.

- Salary of US \$ 6,000 per month
- Incentives of US \$ 10,000 per month
- Entertainment allowance of Rs 80,000 per month.
- Company has provided a residence for which a monthly rent of Rs. 75,000 was paid.
- Company has reimbursed his air travel cost of Rs. 400,000 during the year to travel to America for his vacation.
- Company has also provided the following for his residence
 - Two servants at a cost of Rs. 30,000 per month
 - Provision for electricity and gas for Rs. 100,000
- Cost for the meals of Rs. 1,200,000
- Cost for the telephone bill Rs. 120,000
- He has been provided a vehicle with 2000CC engine capacity
- Company has contributed to an approved provident fund at 15%. His own contribution is 12%. Contribution to ETF was 3%.

USD 1 = SL Rs 150

You are required to compute his employment income for the year of assessment 2022/2023.

Example 05

Mr. Roy is a CEO of Poly craft (Pvt) Ltd. and his employment income for the Year of Assessment 2022/23 is given below.

- Salary Rs. 130,000 per month
- Incentives Rs. 175,000 per month
- Entertainment Allowance Rs. 30,000 per month
- Bonus approved in 2018/19 Rs. 350,000
- EPF 8% Rs. 96,000
- APIT Rs. 50,000
- He has been provided the following additional benefits during his employment.
- Provided a car over 1500 C.C. with driver and fuel for both official and private travelling. However, he has not kept any records for his private travelling.
- Provided a house rent free for him and his family where the rent paid by the company to the landlord was Rs. 30,000 per month.
- He has been reimbursed for his medical expenses as follows,
 - He met a minor accident while he was on travelling for official purpose and insurance is not claimable for such an accident. However, the company reimbursed the medical bills amounting to Rs. 60,000/- (not an equal term)
 - His daughter was suffering from Dengue fever and her hospital bills were reimbursed for Rs. 50,000/-
- Life Insurance premium paid by the company Rs. 120,000 per annum
- Telephone bills reimbursed Rs. 80,000 per annum

You are required to compute his employment income for the year of assessment 2022/2023.

Q&A ?

Thank you



JMC vLearning
"your virtual learning partner"