

Taxable Income

Ms. Roma Rajika

Chapter 06

Taxable Income

1. Computation of Assessable Income

- Assessable Income is calculated after claiming losses (business or investment), if any.
- Losses can be claimed only from business and investment income.

Assessable Income from Employment	xxxx
Assessable Income from Business	xxxx
Assessable Income from Investment	xxxx
Assessable Income from Other Sources	xxxx
Total Assessable Income	xxxx

2. Tax treatment for residence & non-residents persons

- In calculating the assessable income of a resident person, it needs to be considered where ever the income from the employment, business, investment or other sources for that year arises.
- In the case of a non-resident person, the income from the employment, business, investment or other sources for that year needs to be considered only where if it arises in or derived from a source in Sri Lanka.

3. Computation of Taxable Income

Taxable income is calculated after deduction qualifying payments & reliefs from total assessable income.

Assessable Income from Employment	xxxx
Assessable Income from Business	xxxx
Assessable Income from Investment	xxxx
Assessable Income from Other Sources	xxxx
Total Assessable Income	xxxx
Less; Qualifying payments & reliefs	<u>(xxx)</u>
Taxable Income	xxxx

3.1 Reliefs

Reliefs are only applicable to individuals. The reliefs referred to in section 52 shall be as follows

- Rs. 500,000 for each year of assessment, except that an individual who is a trustee, receiver, executor or liquidator shall not be entitled to deduct this personal relief as such trustee, receiver, executor or liquidator, and the relief

is not available to be deducted against gains from the realization of investment assets;

- in the case of an individual with income from employment, Rs. 700,000 for each year of assessment, up to the total of the individual's income from employment for the year;

- in the case of an individual with rental income from an investment asset, an amount equal to 25 percent 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;

- in the case of an individual who is a senior citizen in a year with interest income derived from a financial institution, Rs. 1,500,000 for each year of assessment, up to the total of the individual's interest income for the year;

- in the case of a resident individual or partner of a partnership with income earned in foreign currency in Sri Lanka, from any service rendered in or outside Sri Lanka to any person to be utilized outside Sri Lanka, Rs. 15,000,000 for each year of assessment, up to the total of such income for the year.



Question 01

Mr.Kasun is having following income details for the Y/A 2018/19. Calculate the taxable income.

Employment income	– Rs.1, 800,000
Business income (Foreign Service)	– Rs.2, 000,000
Rent income	– Rs.600, 000

Question 02

Mr.X is sixty seven years old citizen in Sri Lanka. He has earned following income for the Y/A 2018/19. Determine the tax implication.

Gross Interest of Rs.1, 750,000/-

Business income – He is a business consultant for local & foreign countries.

- Profit from Local Services – Rs.1,500,000/-
- Profit from Foreign Service – Rs.22,000,000

Rent income – Rs.1, 000,000

3.2 Qualifying Payments

The qualifying payments referred to in section 52 shall be as follows:

a) a donation made by an individual or entity in money to an approved charitable institution that is:

- (i) a charitable institution established for the provision of institutionalized care for the sick or the needy; and
- (ii) declared by the Minister as an approved charitable institution for the purposes of this sub-paragraph, subject to a maximum of;
 - a. in the case of an individual, one-third of the taxable income of the individual or Rupees seventy five thousand, whichever is less;
 - b. in the case of an entity, one-fifth of the taxable income of the entity or Rupees five hundred thousand, whichever is less;

b) a donation made by an individual or entity in money or otherwise to the following:-

1. the Government of Sri Lanka;
2. a local authority;
3. any Higher Education Institution established or deemed to be established under the Universities Act, No. 16 of 1978;
4. the Buddhist and Pali University of Sri Lanka or any Higher Educational Institution established by or under the Buddhist and Pali University of Sri Lanka Act, No. 74 of 1981;
5. a fund established by the Government of Sri Lanka;

6. a fund established by a local authority and approved by the Minister;
 7. the Sevana Fund created and administered by the National Housing Development Authority established by the National Housing Development Authority Act, No. 17 of 1979; 218 Inland Revenue Act, No. 24 of 2017
 8. a fund established by a Provincial Council and approved by the Minister;
 9. the Api Wenuwen Api Fund established by the Api Wenuwen Api Fund Act, No. 6 of 2008;
 10. National Kidney Fund established under the National Kidney Foundation of Sri Lanka (Incorporation) Act, No. 34 of 2006;
- c) Profits remitted to the President's Fund established by the President's Fund Act, No. 7 of 1978 by a public corporation as required by the law by or under which such corporation is established.

Question 03

Mr.Silva is having following income details for the Y/A 2018/19. Calculate the taxable income.

Employment Income	– Rs.1, 900,000/-
Business Income	– Rs.2, 500,000/-
Rent Income	– Rs.1, 800,000/-
Donation made to government	- Rs.500, 000/- in goods & Rs.200, 000/- in cash
Donation made to approved charity	- Rs.100, 000/- in goods & Rs.300, 000/- in cash

Question 04

XYZ (Pvt) Ltd is having following income details for the Y/A 2018/19. Calculate the taxable income.

Business Income	– Rs.7, 500,000/-
Rent Income	– Rs.5, 800,000/-
Donation made to government	- Rs.750, 000/- in goods & Rs.250, 000/- in cash
Donation made to approved charity	- Rs.500, 000/- in goods & Rs.200, 000/- in cash

4. Transitional provisions on qualifying payments

As per the transitional provisions, any unclaimed balance of qualifying payments as at 31st March 2018, can be deducted as qualifying payment in ascertaining the taxable income of any person for any Y/A commencing after April 01, 2018.

Qualifying Payment	Maximum Claim ability	C/F
1. Donation to the Government and Government Funds etc.	100%	Unlimited
2. Donation in money to an approved charity established for institutionalized care for sick or needy	<u>Individuals</u> – 1/3 rd Of AI or Rs.75, 000/- Whichever lower.	None
3. Locally paid premium on a life or medical & health policy other than special policy (Insurance policy must be for at least three years and payable either in monthly, quarterly or annual premiums.	<u>Companies</u> – 1/5 th Of AI or Rs.500, 000/- Whichever lower.	
4. Expenditure on Government Development Plan approved by the minister	Rs.25,000/-	Unlimited
5. Premia for Policy of Special Health Insurance covers any incurable diseases	Unlimited	
6. 50% of investment not less than Rs.500,000 in purchase of shares in venture capital companies during exempt period	1/3 rd Of AI	None
7. Expenditure in the Upgrading of a Cinema or new Cinema	Rs.10 Mn	Unlimited
8. W.e.f from 1.4.2014, any individual who is professional and has incurred any expenditure of the repayment of housing loan from any licensed bank or finance company qualifying payment not exceeding 600,000.	100%	None
9. Profit from employment exceeds Rs.500,000 or Rs.250,000 whichever is less	100%	None
10. Any sum invested in construction of houses not exceeding 500 SQ Ft under a scheme approved by UDA or NHDA	100%	Unlimited
11. Expenditure incurred on any community development project	Rs.1 Mn	
12. Cost > 5Mn Incurred in producing any film	Rs.35 Mn	Unlimited