

Type of person

Chapter V (Sec 52 – 64)

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Division I: Individuals and Entities

Qualifying payments and reliefs.

Sec. 52 (1)

In arriving at the taxable income of **an individual or entity** for a year of assessment under section 3, the aggregate qualifying payments referred to in the Fifth Schedule to this Act shall be deducted.

Sec. 52 (2)

In arriving at the taxable income of an individual who is resident in Sri Lanka for a year of assessment under section 3, the aggregate reliefs referred to in the Fifth Schedule to this Act shall be deducted.

Sec. 52 (3)

In arriving at the taxable income of an individual who is not resident in Sri Lanka for a year of assessment but is a citizen of Sri Lanka under section 3, the relief referred to in paragraph 2(a) of the Fifth Schedule to this Act shall be deducted.

Qualifying payments and reliefs.

Qualifying payments

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

Qualifying payments and reliefs.

Qualifying payments

- b) Donation made by **an individual or entity in money or otherwise** to the following:-
- i. the Government of Sri Lanka;
 - ii. a local authority;
 - iii. any Higher Education Institution established or deemed to be established under the Universities Act, No. 16 of 1978;
 - iv. 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;
 - v. a fund established by the Government of Sri Lanka;
 - vi. a fund established by a local authority and approved by the Minister;
 - vii. the Sevana Fund created and administered by the National Housing Development Authority established by the National Housing Development Authority Act, No. 17 of 1979;
 - viii. a fund established by a Provincial Council and approved by the Minister;
 - ix. the Api Wenuwen Api Fund established by the Api Wenuwen Api Fund Act, No. 6 of 2008;

Qualifying payments and reliefs.

Qualifying payments

- c) Any sum paid to the Consolidated Fund or 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
- d) Contribution made by a resident individual in money or otherwise to establish a shop for a female individual who is from a Samurdhi beneficiary family as recommended and confirmed by the Department of Samurdhi Development;
- e) Expenditure incurred by any financial institution by way of cost of acquisition, partial acquisition, absorption of business or merger of, any other bank licensed under the Banking Act, No. 30 of 1988, finance company licensed under the Finance Business Act, No. 42 of 2011 or finance leasing company registered in terms of paragraph (c) of section 3 of the Finance Leasing Act, No. 56 of 2000 where such cost is ascertained by considering all the facts on case-by-case basis and as confirmed by the Central Bank of Sri Lanka. Such deductible expenditure shall be apportioned in equal amounts over a period of three years of assessment and be deductible from the assessable income of that financial institution in each such year of assessment commencing from the year of assessment where the expenditure is incurred:

Provided however, any amount which was not deducted during the three years period, by reason of the total assessable income in a year has not exceeded the above permitted deduction, shall be deducted in the year of assessment immediately after the three years period and so on;

Qualifying payments and reliefs.

Qualifying payments

- f) Expenditure incurred on or after April 1, 2021, by any person-
 - i. in the production of a film at a cost of (including promotional expenditure of such film) not less than five million rupees;
 - ii. in the construction and equipping of a new cinema at a cost of not exceeding twenty-five million rupees;
 - iii. in the upgrading of a cinema at a cost of not exceeding ten million rupees:

Provided that, the deduction under this shall be restricted to one third of the taxable income of the year of assessment, and any amount which is not deducted in current year may be carried forward and deducted in the next succeeding year and so on, subject to the same restriction.

For the purpose of this -

“Film” means any audio-visual presentation of the moving image produced on any form or format whatsoever and which is intended primarily to be exhibited by projection on a screen in a cinema; and

The expenditure on construction and equipping or upgrading a cinema shall be certified by the National Film Corporation of Sri Lanka established by the National Film Corporation of Sri Lanka Act, No. 47 of 1971 as being equipped with digital technology, Digital Theatre Systems and Dolby Sound Systems.

Qualifying payments and reliefs.

reliefs

- a) Rs. 2,250,000, for first nine months and Rs. 300,000 for second three months of the year of assessment commencing on April 1, 2022; and Rs. 1,200,000, for each year of assessment commencing on or after April 1, 2023,

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 shall not be deducted against gains from the realisation of investment assets.

- b) 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;

Qualifying payments and reliefs.

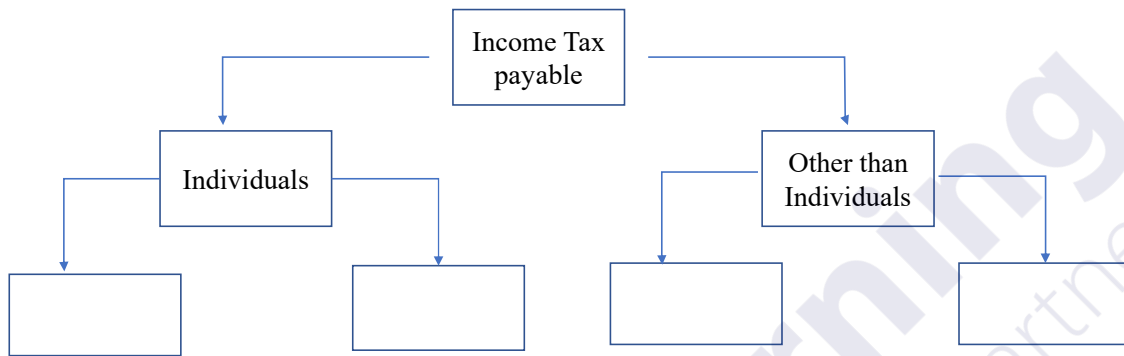
reliefs

- c) In the case of a resident individual, following expenditure up to a total sum of Rs. 1,200,000, incurred for a year of assessment on or after January 1, 2020, but prior to April 1, 2022 and sum of Rs. 900,000, incurred for the first nine months of the year of assessment commencing on April 1, 2022:-
- i. health expenditure including contributions to medical insurance;
 - ii. vocational education or other educational expenditure incurred locally by such individual or on behalf of such individual's children; interest paid on housing loans;
 - iii. contributions made to any local pension scheme, other than for a scheme under the employer or on behalf of the employer, by an employee;
 - iv. expenditure incurred for the purchase of shares or any other financial instrument listed in the Colombo Stock Exchange and licensed by the Securities and Exchange Commission of Sri Lanka or treasury bonds under the Registered Stocks and Securities Ordinance (Chapter 420) or treasury bills under the Local Treasury Bills Ordinance (Chapter 417);
- d) In the case of a resident individual who has acquired solar panels to fix on his premises and connected to the national grid, Rs. 600,000 for each year of assessment, up to the total expenditure on such solar panels or up to the amounts paid to a bank in respect of any loan obtained acquire such solar panels.

Calculation of Income Tax Payable

Calculation of income tax payable for the year of assessment commencing on April 1, 2022

The income tax payable by a person for the year of assessment commencing from April 1, 2022, shall be calculated separately for two periods of year of assessment as first nine months and second three months by individuals and first six months and second six months by persons other than individuals.

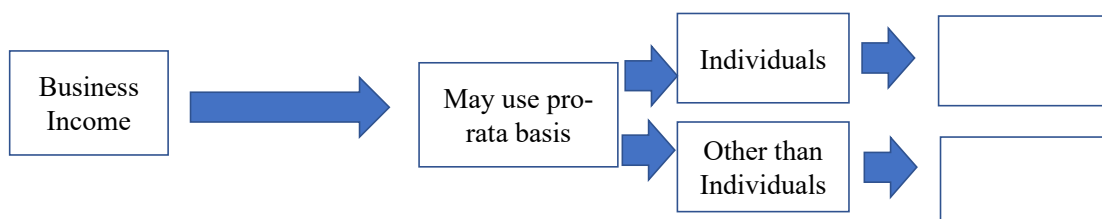


Calculation of Income Tax Payable

1. For the purpose of such to arrive the taxable income for such two periods.
 - i. Calculation of Employment Income, Investment Income and other income shall be calculated on actual basis.



- ii. Calculation of Business income the person may use pro-rata basis
 - as 75% for first nine months and balance 25% for second three months by individuals and
 - 50% for first six months and balance 50% for second six months by persons other than individuals



Calculation of Income Tax Payable

Deductibility for Qualifying Payment and relief

1. Qualifying payment can be deducted either First period or second period or both period in arriving the taxable income. However, limited to the maximum amount to be deductible for the year as specified in the fifth schedule to the act
2. Relief can be deducted from First period or second period or both period in arriving the taxable income to the maximum amount for the year as specified in the fifth schedule to the act
 - Personal relief - an individual other than a trustee, receiver, executor or liquidator
 - Relief for rental income from an investment asset to a resident individual - Based on the Rent income recognized for each period
 - Expenditure relief to a resident individual – Only for First 9 Month subject to maximum amount of Rs. 900,000/-
 - Relief for solar panel to a resident individual - First period or second period or both period in. However, limited to the maximum amount to be deductible for the year is Rs. 600,000/-

Division III: Trusts and unit trusts

Sec 59

Every unit trust or every mutual fund that does not conduct an eligible investment business shall be deemed to be a company resident in Sri Lanka and the provisions of the Act relating to companies resident in Sri Lanka shall apply.

“eligible investment business” means a business or investment comprising predominately of owning, investing or trading in –

1. capital assets;
2. financial instruments; or
3. other similar assets;

Accordingly,

a “unit” in any unit trust or a mutual fund shall be deemed to be a share in that company;

unit holder in any unit trust or mutual fund shall be deemed to be a shareholder in that company;

the income derived by or which arose from or accrued to the benefit of, the trustee of any unit trust or the custodian of any mutual fund from any property subject to that unit trust or mutual fund or from any business carried on by such trustee or such custodian for or on behalf of, that unit trust or mutual fund shall be deemed to be the income of that company;

any distribution, in any manner whatsoever, of the income of any unit trust or mutual fund to its unit holders shall be deemed to be a dividend distributed to the shareholders of that company; and

the paid up value of any unit in any unit trust or mutual fund shall be deemed to be the paid up value of any share in that company.

Any sum appropriated or paid by way of remuneration to the manager or the trustee of any unit trust or to the manager or custodian of any mutual fund out of the funds of that unit trust or mutual fund shall, for the purposes of section 11 be deemed to be an expense incurred by that company in the production of its income.

Division IV: Companies

Sec 60

Company shall be liable to tax separately from its shareholders.

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 to the different activities and sources of income, in which case each such different activity and source shall be treated as distinct businesses and sources.

Arrangements between a company and its managers or shareholders shall be recognised.

Sec 61

Taxation of shareholders.

Dividends –

- Distributed by a resident company shall be taxed on the company's shareholders; and
- Distributed by a non-resident company shall be included in calculating the income of the shareholders.

Gains on disposal of shares in a company shall be included in calculating the income of the shareholder.

Sec 62

Remittance tax

A non-resident person who carries on business in Sri Lanka through a Sri Lankan permanent establishment shall pay tax on the remitted profits earned within the year of assessment.

Division IV: Companies

A non-resident person who has earned remitted profits on business in Sri Lanka through a Sri Lankan permanent establishment shall pay a final tax on the gross amount of the remitted profits to the Commissioner-General in accordance with the rate set out in the First Schedule to the Act on or before the thirtieth day succeeding the date of making such remittances:

Provided however, 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.

“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.

Division V: Entities

Sec 63

Asset dealings between entities and members.

Where an asset is realised by way of transfer of ownership of the asset by an entity to one of its members or *vice versa* –

1. The transferor shall be treated as deriving an amount in respect of the realisation equal to the market value of the asset immediately before the realisation; and
2. The transferee shall be treated as incurring expenditure of the amount referred to in paragraph (a) in the acquisition.

Section 46, Exception

Change in control

Section 46, Exception

When the underlying ownership of an entity changes by more than fifty percent as compared with that ownership at any time during the previous three years, the entity, after the change, shall not be permitted to –

1. deduct financial costs carried forward under subsection (3) of section 18 that were incurred by the entity prior to the change;
2. deduct a loss under subsection (1) of section 19 that was incurred by the entity prior to the change;
3. in a case where the entity has, prior to the change, included an amount in calculating income in terms of subsections (2), (4) or (5) of section 24, claim a deduction under those provisions after the change; or
4. carry back a loss under subsection (5) of section 25 that was incurred after the change to a year of assessment before the change.

Change in control

With the change in control following adjustment not possible.

1. Financial costs carried forward

Sec 18 (3);

Financial costs for which a deduction is denied as a result of limitation , may be carried forward and treated as incurred during any of the following six years of assessment, but only to the extent of any unused limitation for the year:

2. Deduct a loss that was incurred by the entity prior to the change;

Sec 19(1);

An unrelieved loss of the person for any of the previous six years of assessment from the business or any other business shall be deducted.

3. Reverse of amounts including bad debts

Sec 24(2), (4) or (5);

4. Carry back a loss

Sec 25(5);

Long-term contracts

Change in control

Sec 64 (2)

Where a change in ownership occurs during a year of assessment of an entity, the parts of the year of assessment before and after the change shall be treated as separate years of assessment.

Sec 64 (3) Exception

This section shall not apply to a partnership or company that conducts the same business after a change as it conducted before the change for a period of two years after the change.

Thank you

