

4.4 Non-governmental organizations (NGO)

As per section 195, "Non Governmental Organization" means any organization or association, whether incorporated or unincorporated, formed by a person or a group of persons on a voluntary basis and which is non-governmental in nature, and established and constituted -

- (a) for the provision or relief and services of a humanitarian nature to the poor destitute, the sick, orphans, widows, youth, children; or
- (b) generally for the provision of relief to the needy,

unless such organization or association is determined by the Commissioner General not to be a non-governmental organization, but it all cases does **not include an approved charity.**

- As per section 68, a non-government organization shall pay an additional tax of 3% of amounts received in each year of assessment by way of grant, donation or contribution or in any other manner at the rate of 30% (w.e.f.01.01.2020)
- If the Commissioner-General is satisfied that any non-governmental organization is engaged, in any year of assessment, in -
 - (a) rehabilitation and the provision of infrastructure facilities and livelihood support to displaced persons in any area identified by the Government for the purposes of such rehabilitation and provision; or
 - (b) any other activity approved by the Minister as being of humanitarian in nature, taking into consideration the nature and gravity of any disaster and the magnitude of relief required to be provided consequently,

the Commissioner-General may reduce or remove the tax payable by such non-governmental organization for that year of assessment if it appears that such reduction is just and equitable in all the circumstance of the case.

- If a non governmental organisation has a gain from the realization of investment assets such gain is taxed at the rate of 10%
- Other taxable income of a nongovernmental organization is taxed at the rate of 24%. (w.e.f. 01.01.2020)



Question 03

XYZ Non-governmental organization has received the following income for the year of assessment 2021/2022.

Donations received from foreign donors	Rs. 3,000,000
Interest from Fixed Deposits	Rs. 350,000

Calculate the tax liability of NGO for the Y/A 2021/2022.

A**Answer 03**

taxable profit on donations (Rs. 3,000,000 x 3%)	Rs. 90,000
Investment Income - Interest	Rs. 350,000
Taxable income for the year	<u>Rs. 440,000</u>
Tax on taxable income at 24%	Rs. 105,600

4.5 Charitable Institutions

As defined in sec. 195, **Charitable Institution** means the trustee or the trustees of a trust or corporation or an unincorporated body of persons established for a charitable purpose only or engaged solely in carrying out a charitable purpose. "charitable purposes" means a purpose for the benefit of the public or any section of the public in or outside Sri Lanka, of any of the following categories:

- the relief of poverty;
- the advancement of education or knowledge other than by any institution established for business purposes or by any institution established under the Companies Act;
- activities for the protection of the environment or eco-friendly activities;
- the advancement of religion or the maintenance of religious rites and practices or the administration of a place of public worship;
- any other purpose beneficial to the community, not falling within any of the above categories

- As per sec. 68 (3), where any charitable institution provides in any year of assessment institutionalized care for the sick or the needy and where the Commissioner-General is satisfied that the cost of provision of such care is borne by such charitable institution, the Commissioner-General may, subject to specified conditions, grant a tax credit against the tax payable on the charitable institution's taxable income for the year of assessment, provided it appears to the Commissioner-General that such reduction or remission is just and equitable in all the circumstances of the case.

Tax rates for a charitable institutes

- gains from realization of investment assets shall be taxed at the rate of 10%; and
- the remainder of the charitable institution's taxable income shall be taxed at the rate 14%

Note : As per Inland Revenue amendment Act, No. 10 of 2021 w.e.f. 01.01.2020, any amount derived by any religious institution which is registered with the Ministry in charge of the subject of religious affairs, by way of grants or donations is exempted.

Q**Question 04**

ABC Charitable Institution has below income sources for the Y/A 2021/2022.

Rent income	Rs. 240,000
Business Income	Rs. 125,000
Gain on realization of investment assets	Rs. 200,000

Calculate the tax liability of Charitable Institution for the Y/A 2021/2022.

A**Answer 04**

Business income	Rs. 125,000
Investment Income (other than realization of Investment assets)	Rs. 240,000
Gain on realization of investment assets	<u>Rs. 200,000</u>
Taxable Income	<u>Rs. 565,000</u>
Tax on taxable income (Rs.365,000x14%+200,000x10%)	<u>Rs. 71,100</u>



JMC VLEARNING
"your virtual learning partner"