

Employment Income

AAT Level III Corporate & Personal Taxation (CPT)

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CHAPTER 03

ASSESSABLE INCOME - EMPLOYMENT INCOME

As per the Inland Revenue Act No.24 of 2017,

“Employment “ means ;

- ✓ A position of an individual in the employee of another person,
- ✓ A position of an individual as manager of an entity,
- ✓ A position of an individual entitling the individual to a fixed or ascertainable remuneration in respect of services performed,
- ✓ A public office held by an individual,
- ✓ A position of an individual to whom any payment is made or due by or from an employer or who receives any other benefit as an employee or in a similar capacity,
- ✓ A position as a corporation or company director.

And includes a past, present or prospective employment.

“Employee” means an individual engaged in employment.

1.1 Inclusions for Employment Income

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.

In calculating an individual’s gains and profits from an employment for a year of assessment the following amounts received or derived by the individual during the year of assessment from the employment shall be included;

- payments of salary, wages, leave pay, overtime pay, fees, pensions, commissions, gratuities, bonuses and other similar payments;
- payments of personal allowance, 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 or termination of employment.
- retirement contributions made to a retirement fund on behalf of the employee and retirement payments received in respect of the employment.
- payments or transfers to another person for the benefit of the individual or an associate person of the individual.
- the fair market value of benefits received or derived by virtue of the employment by an individual or an associate person of the individual.
- other payments, including gifts received in respect of the employment

- the market value of shares at the time allotted under an employee share scheme, including shares allotted as a result of the exercise of an option or right to acquire the shares, reduced by the employee's contribution for the shares.

Associated Persons (Sec. 196) : For the purposes of this Act, two persons are associates or associated persons where the relationship between the two is (for employment income) –

- (a) *that of an individual and a relative of the individual; means the individual's child, spouse, parent, grandparent, grandchild, sibling, aunt, uncle, nephew, niece or first cousin, including by way of marriage or adoption.*

1.2 Excluded Profits from Employment Income

Following should be excluded from the employment income.

- exempt amounts (Third schedule) and final withholding payments(Sec.88).
- a discharge or reimbursement of expenses incurred by the individual on behalf of the employer.
- a discharge or reimbursement of the person's dental, medical or health insurance expenses where the benefit is available to all full-time employees on equal term.
- payments made to or benefits accruing to employees on a non-discriminatory basis that, by reason of their size, type and frequency, are unreasonable or administratively impracticable for the employer to account for or to allocate to the individual.
- the value of a right or option to acquire shares at the time granted to an employee under an employee share scheme.
- contributions made by an employer to an employee's account with a pension, provident or savings fund or savings society approved by the Commissioner - General.

1.3 Exempt Profits from Employment Income

- Compensation or gratuity paid in lieu of personal injuries or death.
- Pension received from the Sri Lankan Government or from a Department of the Government.
- Amounts paid on retirement from any Provident Fund approved by the Commissioner General of Inland Revenue.
- Amounts paid on retirement from any Pension Fund or the Employees' Trust Fund, representing investment income earned for any period commencing on or after 1 April 1987.
- Income derived by an individual entitled to privileges under the Diplomatic Immunities Law and other specified conventions.
- Benefits derived by a Government employee, from a road vehicle permit granted to such employee.

1.4 Values for Non- Cash Benefits

1.4.1 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.

1.4.2 Value of benefits from any residence provided by the Employer

1.4.2.1 “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.

Monthly Remuneration (Rs)	Monthly Non-Cash Benefit (Rs.)		
	In Rated area	In Unrated area	Estate Bungalows
If less than or equal to 200,000	20,000 or 12.5% of remuneration whichever is less	15,000 or 10 % of remuneration whichever is less	10,000 or 7.5% of remuneration whichever is less
If more than 200,000	40,000 or 12.5% of remuneration whichever is less	30,000 or 10 % of remuneration whichever is less	20,000 or 7.5% of remuneration whichever is less
If such residence is furnished	2.5% of remuneration or 5,000 whichever is less		

The value of any place of residence should be considered as inclusive of any security, housemaids, servants, laundry etc.

Note: Where the value of any benefit is less than the fair market value then the difference between the benefit considered for the purpose of withholding tax on employment income of an employee and the fair market value should be disallowed as a domestic expense for the purpose of Section 10 of the Act.

1.4.2.2 Where the employer reimburses any expense connected with a house or apartment occupied by the employee, the value of benefit shall be the actual expense reimbursed by the employer.

1.4.3 Value of Transport Facilities provided by the Employer

1.4.3.1 The value of benefit to an employee from the (fully or partly) private use of any motor vehicle should be the market value or value specify as follows where the market value is not ascertainable.

Engine	Non- Cash Benefit (Rs. Per Month)		
	Vehicle	Driver	Fuel
<ul style="list-style-type: none"> • Not more than 1800cc - Fuel or Hybrid (Petrol/Diesel) • Not more than 200 KW Electrical Vehicles 	20,000	10,000	20,000
<ul style="list-style-type: none"> • More than 1800 cc - Fuel or Hybrid (Petrol/Diesel) • More than 200 KW Electrical Vehicles 	35,000	10,000	30,000

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 PAYE tax purpose.

Note: Where the value of any benefit is less than the fair market value then the difference between the benefit considered for the purpose of withholding tax on employment income of an employee and the fair market value should be disallowed as a domestic expense for the purpose of Section 10 of the Act.

1.4.3.2 The value of benefit to an employee from the (fully or partly) private use of any motor bicycle -

- (a) provided by the employer with fuel on such employer's account, shall be deemed to be Rs. 5,000 per month, (irrespective of the engine capacity);
- (b) provided by the employer without fuel, shall be deemed to be Rs. 3,000 per month, (irrespective of the engine capacity)

1.4.3.3 The value of the benefit from private use of -

- (a) any motor vehicle used for field works, provided by the employer where accurate record of such usage is maintained by such employer, shall be deemed to be Rs. 25 per kilometer (irrespective of the engine capacity of the vehicle);
- (b) any motor bicycle provided by the employer where accurate record of such usage is maintained by such employer, shall be deemed to be Rs. 5 per kilometer (Irrespective of the engine capacity of the vehicle)

1.4.3.4 Where the employer incurs or reimburses any expense in respect of fuel or maintenance of any motor vehicle or motor bicycle owned by the employee, the value of the benefit to the employee is the actual expenditure.

1.4.4 Other Benefits provided by the Employer

	Nature of benefits	Value of Benefits
1	Provision of Hotel Facilities for expatriates	100% of the cost
2	Loans on Concessionary rates	50% of difference between concessionary rate and the market rate specified annually by CGIR For the year of assessment 2018/2019 market rate specified by CGIR is 9.08% per annum.
3	Provision of servants etc.	100% of the cost
4	Provision of Electricity and Gas etc.	100% of the cost
5	Provision of Medical Benefits	100% of such medical bills.
6	Provision of free meals	100% of the cost
7	Payment of dental, medical or health insurance A discharge or reimbursement of dental, medical or health insurance expenses where the benefit is not available to all full-time employees in equal terms	100% of the cost
8	Payment of telephone bills & annual charges	50% of the cost
9	Air tickets (other than official purposes)	100% of the cost
10	Payment of Tax	Amount of Tax paid

1.5 Aggregate Reliefs for Employment Income (Section 52/ Fifth Schedule - Qualifying Payments & Reliefs)

In arriving at the taxable income from employment income following reliefs are available for resident individual for each year of assessment.

- Personal relief of Rs. 500,000/- (applicable for resident individuals & non resident citizens only)
- Relief of Rs. 700,000/- up to the total of income from employment

Accordingly, any resident individual who receives remuneration in excess of Rs. 1,200,000 per annum or Rs. 100,000 per month liable to withholding tax from employment income.

1.6 WITHHOLDING TAX ON EMPLOYMENT INCOME (SECTION 83) / PAY AS YOU EARN (PAYE) SCHEME

P.A.Y.E. income tax tables and instructions for their use applicable with effect from 01.04.2018

Tax Table	Description
Tax Table No.01	Monthly tax deduction from regular profits
Tax Table No.02	Rates for deductions of tax from Lump-sum-payments
Tax Table No.03	Deduction of Tax from Once-and-for-all-payments (Terminal Benefits)
Tax Table No.04	Rates for the deduction of tax from the regular profits from employment of employees who are non-citizens in Sri Lanka
Tax Table No.05	Deduction of tax on cumulative Profits from employment
Tax Table No.06	Tax on Tax Rates
Tax Table No.07	Rates for the deduction of tax from the regular profits from employment of any employee, who has not furnished the primary employment declaration, or who employed under more than one employer.

1.6.1 Primary Employment

- The primary employment of an employee for a year of assessment is the employment with respect to which the employee has provided an employer with a declaration for that year.
- An employee shall furnish an employer, with a declaration nominating the employment as the employee's primary employment, where the monthly regular profits from such primary employment exceeds or deem to be exceed Rs.100,000 per month or Rs. 1,200,000 per year of Assessment.

1.6.2 Secondary Employment

With respect to an employee Secondary Employment means, any employment that is not the primary employment of the employee.

Important Note;

- *If an employee has furnished a primary employment declaration to the employer, such employee is liable for PAYE under PAYE Table 01.*
- *If an employee has a secondary employment or not furnished a primary employment declaration to the employer, such employees are liable for PAYE under PAYE table 07 and details are as follows.*

Up to Rs.50,000/-	10%
Exceeds Rs.50,000/-	20%

1.6.3 Employer & Employee Obligations under PAYE Scheme

- Employee should furnish Primary Employment Declaration to his Employer.
- Remit to the Commissioner General every tax deduction made under PAYE Scheme during a month, not later than the 15th day of the month immediately following.
- Where the Employer fails to withhold the relevant tax;
 - Employer himself responsible to remit the due tax to CGIR in the same manner, at the same time as the tax withheld and recover such amount from the Employee
 - Employer & Employee jointly and severally liable for the payment of the tax on or before the due date
- Issue a WHT Certificate to all employees, details including the tax deductions made during the year (T10 form), before the expiry of the 30th day of April or where an employment ceases during the year of assessment, not more than thirty days from the date of cease.
- Furnish Annual Statement, with Schedules to the Commissioner General not later than 30th April every year.
- Keep in safe custody the documents relating to every payment made to employees. Whenever officers authorized by the CGIR call for inspection, such documents should be made available.

Special Note;

- *Penalty and Interest on Non-payment:*
 - *a penalty equal to 20% of the due tax, but not paid, in case of a failure to pay /or remit all or part of the tax for a tax period within 14 days of the due date*
 - *an interest equal to 1.5% per month or part month on the amount of tax, if the tax is not paid by due date*
- *No Deduction from Employment Income (Sec. 10(1)(a))*

No deduction shall be allowed in calculating a person's income from employment.

1.7 EMPLOYMENT INCOME - TAX RATES

1.7.1 Employment Income Taxable at Reduced Rates

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

1. Retiring Gratuity
2. Commuted Pension
3. Compensation for loss of office or employment if uniformly applicable
4. Withdrawals from ETF.

Above mentioned retirement benefits are taxable as follows;

- If Period of Contribution/employment less than 20 Years;

	Retirement Benefits	Rate
On First	2,000,000	NIL
Next	1,000,000	5%
On	Balance	10%

- If Period of Contribution/employment more than 20 Years;

	Retirement Benefits	Rate
On First	5,000,000	NIL
Next	1,000,000	5%
On	Balance	10%

Special Note;

- ❖ Any receipt of compensation at the time of retirement which is not paid on a uniform basis is taxable. at normal rates, subject to a maximum rate of 24%.

1.7.2 Tax Rates for resident and non - resident individuals - Normal Rates

Taxable Income	Rates	Tax	
1 st	600,000	4%	24,000
2 nd	600,000	8%	48,000
3 rd	600,000	12%	72,000

4 th	600,000	16%	96,000
5 th	600,000	20%	120,000
On Balance		24%	

Special Note;

- ❖ *No deductions shall be made in calculating a person's income from employment. (Section 10 – General Deduction).*

Question 01

A director of a company has received the director's fee of Rs. 2,400,000 during the year of assessment 2018/2019. He has spent a sum of Rs. 300,000 during the year in generating such income.

Advise him whether he can deduct this expenditure in calculating his director's fee.

Question 2

ABC Ltd has made a provision of Rs.1,000,000/- as bonus payable to an employee in the financial statements for the year ended March 31, 2019. However such bonus was actually paid to the employee in April 2019.

Determine in which year of assessment the bonus is taxable.

Question No 03

Determine whether a monthly contribution made by an employer on behalf of an employee to the provident fund is a profit from employment.

Question No 04

An employer under the contract of employment made a payment of Rs.200,000/- direct to a hospital, as a settlement of the hospital bill in respect of the employees spouse.

Determine such payment is a profit from employment.

Question No 05

An employer has paid a total mobile phone bill of marketing executive amounts to Rs.360, 000/- for the whole year of assessment.

Determine his taxable benefit.

Question No 06

An employer has deducted PAYE tax of Rs. 2,000,000/- from all liable employees according to the PAYE table for the month of January 2019.

State the due date of payment of such deduction to the commissioner General.

Question No 07

An employer has deducted PAYE tax from the remuneration payable to all liable employees for every month for the whole year of assessment 2018/2019. State the due date of furnishing annual declaration to the Department of Inland Revenue.

Question No 08

Mr. Tony is a citizen of United States and is employed in Sri Lanka for a period of three years from August 01, 2017. He has received the following benefits from his employer X Ltd for the year of assessment 2018/2019.

- i. Salary of US \$ 6,000 per month
- ii. Incentives of US \$ 10,000 per annum
- iii. Entertainment allowance of Rs 80,000 per month.
- iv. Company has provided a residence for which a monthly rent of Rs. 75,000 was paid.
- v. Company has reimbursed his air travel cost of Rs. 400,000 during the year to travel to America for his vacation.
- vi. 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
 Meals for the cost of Rs. 1,200,000
 Telephone facilities for the cost of Rs. 120,000
- vii. He has been provided with a vehicle with 2000CC
- viii. 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 2018/2019.

Question No 09

Mr. Roy is a CEO of Poly craft (Pvt) Ltd. and his employment income for the Year of Assessment 2018/19 is given below.

Salary	Rs. 130,000 per month
Incentives	Rs. 175,000 per annum
Entertainment Allowance	Rs. 30,000 per month
Bonus approved in 2018/19	Rs. 350,000
EPF 8%	Rs. 96,000
PAYE Tax	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/-
- He has been granted 3000 shares of the company under ESOP scheme for Rs. 30/- each and the market value of the share was Rs. 60/-
- 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 2018/2019.

Question No 10

An employee is retired from the employment on September 01, 2018 after working for period of 30 years. His average monthly salary for the last three years is estimated to be Rs. 75,000. He has received following benefits at the time of retirement.

- i. Retiring gratuity under the Gratuities Act Rs. 2,200,000
- ii. Compensation paid on a uniform basis Rs. 5,000,000

Determine the tax implication.

Question No 11

Mr. Perera has retired from his employment after 30 years' service with Unicorn Ltd. He received the following benefits at the time of retirement in August 2019.

- i. Retiring gratuity under the Gratuities Act amounts to Rs. 5,000,000. His average monthly salary for last 3 years would be Rs. 180,000.
- ii. Received compensation amounts to Rs. 6,000,000. Company has not paid any other compensation to any retired employee previously.
- iii. He has withdrawn from the approved provident fund amounts to Rs. 10,000,000 as follows.

Employer's contribution	Rs. 4,800,000
His own contribution	Rs. 3,200,000

Investment Income Rs. 2,000,000

- iv. He has also withdrawn a sum of Rs. 1,500,000 from the employees' trust fund as follows.

Employer's contribution Rs. 1,200,000

Investment Income Rs. 300,000

Investment income earned up to April 01, 1987 amounts to Rs. 40,000.

Determine the following:

- Total Retirement benefit taxable for the Y/A 2018/2019
- Retirement benefits not taxable
- Amount of retirement benefits taxable at lower rate as well as normal rate.



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