



Key Income Tax Changes proposed in the Inland Revenue (Amendment) Bill 2022

October 2022

Tax Alert

The Inland Revenue (Amendment) Bill amending the Law applicable on Income Tax was published in the Gazette issued on 11 October 2022. This tax alert provides a snapshot of key Income Tax changes proposed in the Bill.

Individual income tax rate and personal relief threshold

The following changes will be applicable in relation to the personal relief threshold and income tax rates on the taxable income of an individual.

1. Relief threshold applicable on resident and non-resident citizen

Period	Relief
1 st 6 months of Y/A 2022/23 (1/4/2022 - 30/09/2022)	Rs.1,500,000
2 nd 6 months of Y/A 2022/23 (1/10/2022 - 31/03/2023)	Rs.600,000
From Y/A 2023/24 (w.e.f 1/4/2023)	Rs.1,200,000

2. Income Tax rates applicable on the taxable income of a resident or nonresident individual for the Year of Assessment (Y/A) 2022/23

- a. Taxable income for the first 6 months period of the Y/A commencing from 1 April 2022 (1/4/2022 -30/09/2022)

Taxable Income	Tax rate
First Rs.1,500,000	6%
Next Rs. 1,500,000	12%
Balance	18%

- b. Taxable income for the second 6 months period of the Y/A commencing from 1 April 2022 (1/10/2022 -31/03/2023)

Taxable Income	Tax rate
First Rs. 250,000	6%
Next Rs.250,000	12%
Next Rs.250,000	18%
Next Rs.250,000	24%
Next Rs.250,000	30%
Balance	36%

3. Tax rate applicable on the taxable income of a resident or nonresident individual for any Y/A commencing from 1 April 2023 (i.e. Y/A 2023/24)

Taxable Income	Tax rate
First Rs. 500,000	6%
Next Rs.500,000	12%
Next Rs.500,000	18%
Next Rs.500,000	24%
Next Rs.500,000	30%
Balance	36%

4. The currently applicable expenditure relief of Rs.1.2mn (available for a resident individual) will not be applicable w.e.f. 1 October 2022. The expenditure relief for the six months ended 30 September 2022 will be Rs.600,000.
5. The maximum rate of 14% applicable on individual income from following has been removed **w.e.f. 1 October 2022**
- consideration received in respect of gems and jewellery
 - amounts received on the supply of electricity to national grid generated by using renewable energy resources by any individual

Advance Personal Income Tax (APIT)

- APIT on employment income as specified by the CGIR will be applicable in relation to all the employees irrespective of the consent given by the employee with effect from the date of the commencement of the Amendment Act.
- The persons who are not required to file the return of income has been extended by including individuals whose taxable income for a Y/A exclusively include the income from employment where the employer has deducted APIT with effect from the date of the commencement of the Amendment Act.
- Enhance the list of exclusions from the individual's gains and profits from an employment by excluding any retirement payments, where the contribution have already been considered for income tax purposes by the employee.

Corporate Income Tax rates

The following changes are proposed on the rate of tax applicable on the taxable income of the companies

1. Standard Income Tax Rate

Period	Tax Rate
Y/A 2022/23 – 1 st six months (i.e 1/4/2022 - 30/09/2022)	24% (no change)
Y/A 2022/23 – 2 nd six months (i.e 1/10/2022 - 31/03/2023)	30%
Y/A 2023/24 (w.e.f. 1 April 2023)	30%

2. Concessionary tax rates removed

The concessionary tax rate of 14% and 18% applicable on identified gains and profits will not be applicable w.e.f. 1 October 2022.

3. The income tax rate of 40% will continue

The higher rate of 40% will continue to be applicable on the following

- gains and profits from conducting betting and gaming
- gains and profits from the manufacture and sale or import and sale of any liquor or tobacco product

4. Capital Gain Tax for Corporates

Capital gain tax rate applicable on realization of investment asset by the companies will be increased to **30%, w.e.f. 1 October 2022**. The prevailing rate is 10%.

Changes proposed to the deductibility of expenses in determining the Assessable Income

• Disallowable expenses

Taxes that are not allowed in calculating the Assessable Income is extended to cover any tax or levy which is not allowed in terms of any other written law.

• Deduction for improvements

Where an improvement is carried out for a depreciable asset, where capital allowance has been fully claimed, the improvement value could be claimed as follows;

Class of Asset	Nature	No of Ys/A
Class 4	Building, structures and similar work of permanent nature	12
Other classes	Other Depreciable Assets	3

• Capital Allowance

The claiming of capital allowance has been limited to the cost of the depreciable asset.

• Loss Claim

- Loss from business:** Claim on account of a loss in relation to the business where the tax rate has been substantially increased, the losses incurred at lower rates will not be considered as being taxable at a reduced rate. This proposal would allow companies with unrelieved losses prior to proposed changes to claim such losses against profits under the amended tax rate.
- Loss from investment:** Claimability of unrelieved losses from an 'investment' is limited for the succeeding 6 Y/A's from the Y/A it is incurred
- Loss claimability against Capital Gains:** Gain from the realization of investment asset cannot be reduced by any loss

Advance Income Tax (AIT)

Mandatory AIT deductions will be applicable on the payment of dividend, interest, discount, charge, natural resource payment, rent, royalty or premium which has a source in Sri Lanka at the following rates from the date of the commencement of the Amendment Act.

Nature of payment	AIT rate
Rent equal or exceeding Rs.100,000 per month made to a resident person	10% on total rent
Interest or discount	5%
Dividend paid	15%
All other payments	14%

Withholding tax on service payments

The following withholding tax rates applicable on service fee payments with effect from the date of the commencement of this Bill/Act.

1. Payment of service fee or an insurance premium with a source in Sri Lanka to a **non-resident** – withholding at the rate of **14%** (final tax)
2. Following payments exceeding Rs.100,000 per month to a **resident individual** (who is not an employee of the payer) – withholding at the rate of **5%**
 - a. Service fee for teaching, lecturing, examining, invigilating or supervising an examination;
 - b. Service fee as a commission or brokerage to a resident insurance, sales or canvassing agent;
 - c. for services provided by individual in the capacity of independent service provider such as doctor, engineer, accountant, lawyer, software developer, researcher, academic or any individual service provider as may be prescribed by regulation:

Final withholding payment

Dividend paid by a resident company is considered as a final withholding payment with effect from the date of the commencement of the Amendment Act.

Tax rate for trust

Tax rate applicable on trust is changed as follows;

Period	Tax Rate
Y/A 2022/23 – 1 st six months (i.e 1/4/2022 -30/09/2022)	18% (no change)
Y/A 2022/23 – 2 nd six months (i.e 1/10/2022 -31/03/2023)	30%
Y/A 2023/24 onwards (w.e.f. 1 April 2023)	30%

Tax rate for unit trust or mutual funds, non-governmental organization

Tax rate applicable on unit trust or mutual funds and non-governmental organization are changed as follows;

Period	Tax Rate
Y/A 2022/23 – 1 st six months (i.e 1/4/2022 -30/09/2022)	24% (no change)
Y/A 2022/23 – 2 nd six months (i.e 1/10/2022 -31/03/2023)	30%
Y/A 2023/24 onwards (w.e.f. 1 April 2023)	30%

Introduction of Exemptions

Following exemptions are introduced

- a. Dividend payment attributable to, or derived from, another dividend received by that resident company or another resident company which is subject to AIT **w.e.f. 1 October 2022**
- b. Gain from realization of capital asset used in business or investment or a liability by an entity fully owned by the Government of Sri Lanka (GOSL), where such gain was made due to any decision by the GOSL which is being essential for the economic development of Sri Lanka and subject to the prior written approval of the Minister **w.e.f. 1 April 2022**

Withdrawal of Exemptions

1. Following exemptions have been **removed w.e.f. 1 October 2022**
 - a. Dividend paid by a resident company to a member who is a non-resident person
 - b. Gain from realization of land or building which was sold, exchanged or transferred to a real estate investment trust (REIT)

- c. Dividend and gains on the realisation of units or amounts derived as gains from the realization of capital assets of a business or investment by a unit holder, from REITs

2. Following exemptions have been **removed w.e.f. 1 April 2023**

- a. Gains and profits derived from providing information technology and enabled services
- b. Any vocational education programmes of any Vocational Education Institution
- c. Any business of export of gold, gems or jewellery or from the business of cutting and polishing of gems which are brought to Sri Lanka and exported after such cutting and polishing, where such gains and profits earned in foreign currency are remitted through a bank to Sri Lanka
- d. Gains and profits from business of the following new undertakings;
 - i. An undertaking which is involved in the sale of construction materials recycled
 - ii. Business commenced by an individual after successful completion of vocational education from any Vocational Education Institution
 - iii. An undertaking commenced by a resident person for the purpose of manufacturing of boats or ships in Sri Lanka
 - iv. Any renewable energy project established with a capacity to produce not less than 100 Mega Watts of solar or wind power
 - v. An undertaking by any resident person who constructs and installs communication towers and related appliances
 - vi. An undertaking for letting bonded warehouses or warehouses related to the offshore business in the Colombo and Hambanthota Ports

Segregation of tax accounts

Where a person has expenses incurred in common or commonly used any assets on all business or investment activities, and such expense or deduction cannot be separately identified for the calculation of tax accounts, it is permitted to divide such expenses or deductions on a proportionate basis (according to the proportion of turnover or proportion of asset usage) .

The income tax payable by a person for the Y/A 2022/23, shall be calculated separately for 2 periods of the Y/A as first six months and second six months. For the purpose of such calculation, the person may use pro-rata basis (as 50% for first six months and balance 50% for second six months of the Y/A) to arrive the taxable income for such two periods.

Administrative review

- **Time period to request for Administrative Review:** 30 day period provided to make a request for an administrative review to CGIR has been reduced to 14 working days after the taxpayer is notified of the decision, w.e.f. 1 April 2023.
- **Time period to issue acknowledgement by the CGIR:** 30 day period provided to CGIR for acknowledgment of receipt of an administrative review has been reduced to 14 working days, w.e.f. 1 April 2023.

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