



Chamber of Construction Industry Sri Lanka

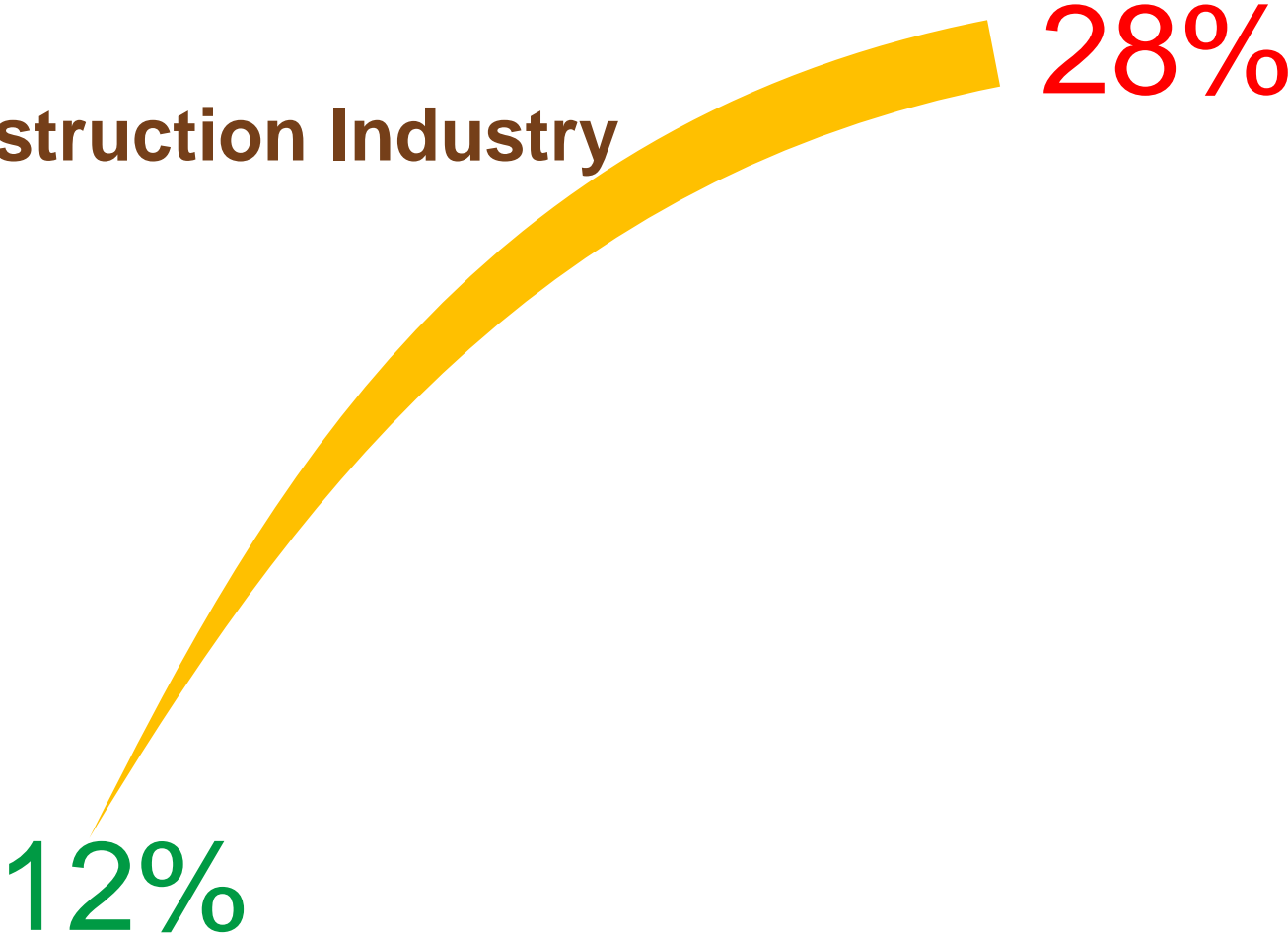
# Inland Revenue Act No 24 of 2017



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# Income Tax – Rate

Construction Industry





# Calculation of the Income Tax

# S.28 (2) IRA 2006

Where the Commissioner-General directs under the provisions of subsection (4) that the accounts in respect of any trade, business, profession or vocation be made up for such periods as may be specified in that direction, he may further direct that the statutory income from that source for any year of assessment be computed on the amount of the profits of the period ending in that year of assessment. Where however, the statutory income of any person from a trade, business, profession or vocation has been computed by reference to an account made up for a certain period and such person fails to make up an account for the corresponding period in the year following, the statutory income from that source, both of the year of assessment for which such failure occurs and of the two years of assessment following, shall be computed on such basis as the Commissioner-General shall consider just and equitable in the circumstances of the case:

# S.28 (3) IRA 2006

Every person who carries on or exercises any trade, business, profession or vocation shall, subject to the provisions of subsection (4), make up the accounts of that trade, business, profession or vocation for each successive period of twelve months ending on the thirty-first day of March of each year:

Provided that where a person—

(a) commences to carry on or exercise a trade, business, profession or vocation in any year of assessment, such person shall make up the accounts of such trade, business, profession or vocation for the period beginning from the date of commencement of such trade, business, profession or vocation and ending on the thirty-first day of March of that year of assessment; and

(b) ceases to carry on or exercise a trade, business, profession or vocation in any year of assessment, such person shall make up the accounts of such trade, business, profession or vocation for the period beginning from the first day of April of that year of assessment and ending on the date of such cessation.

# S.28 (4) IRA 2006

Where any person is unable to comply with the provisions of subsection (3) in relation to any trade, business, profession or vocation carried on or exercised by him, he shall give notice in writing to the Commissioner-General setting out the reasons for his inability to comply with such provisions. The Commissioner-General may, if satisfied with the reason set out in such notice, direct such person to make up the accounts of that trade, business, profession or vocation for such periods as may be specified in that direction, and it shall be the duty of such person to comply with the direction:

Provided however that the Commissioner-General may at any time vary or revoke any direction given by him under the preceding provisions of this subsection.

# S.203 (3) – IRA 2017

This subsection shall apply where a person's year of assessment under the repealed Act is (at the time the repealed legislation ceases to have effect) a period of twelve months **other than the year ending 31 March**. The person shall be **deemed to have been granted approval** by the Commissioner- General under **section 20(2)** to use that period as the person's year of assessment under this Act

# Rules of Interpretation

The Legislature is deemed not to waste its words or to say anything in vain. The presumption is always against superfluity in a statute. An Act should be construed as to avoid redundancy or surplusage. It is no doubt true that as a general rule legislature may be presumed not to make a superfluous provision.

- Govindrama v Jhimi Bai
- Awadh Kishore Singh v Brij Bihari Singh
- Aidal Singh v Karain Singh

*“Bindra’s Interpretation of Statutes”*



# S.203 (1) IRA 2017

The repealed Act shall continue to apply for **years of assessment commencing prior** to the date on which this Act comes into effect.

# Transitional Provisions – 2064/53

Where a direction is issued by the Commissioner General of Inland Revenue under Section 28 of the Inland Revenue Act, No. 10 of 2006, such direction shall continue to be in force.

## S.20 (2) IRA 2017 – CGIR Approval

A trust or company may apply to the Commissioner- General for **a change to its year of assessment** and the Commissioner-General may, on such terms and conditions as the Commissioner-General thinks fit, **approve the change**. The Commissioner-General may revoke an approval if a trust or company fails to comply with a term or condition attached to the approval.

# Payment of Taxes

## Tax on Capital gains

- Within 01 month of realization of the assets/liabilities

## Income Tax installments

- If Y/E 31 Mar – 15<sup>th</sup> Aug, 15<sup>th</sup> Nov, 15<sup>th</sup> Feb, 15<sup>th</sup> May
- Different Y/E – 15<sup>th</sup> day immediately succeeding the end of 3 month period
- Final payment – 6 months after the end of Y/A

# Returns

Capital Gains- 01 month after the realization

Income Tax : 08 month after the end of the Y/A.  
CGIR can grant extension

- Y/E March – 30 November

No Return filing: only employment income & tax payable by final WHT

# Method of accounting

The timing of inclusions and deductions in calculating a person's income shall be made **according to GAAP**.

	Source	Basis
Individual	<ul style="list-style-type: none"><li>• Employment</li><li>• Investment</li></ul>	Cash
	<ul style="list-style-type: none"><li>• Business</li></ul>	Accrual
Company	<ul style="list-style-type: none"><li>• Business</li></ul>	Accrual
	<ul style="list-style-type: none"><li>• Investment</li></ul>	Optional
Individual/Company	<ul style="list-style-type: none"><li>• Other income</li></ul>	Optional

- CG requires a person to use a particular method of accounting or
- CG may approve change the person's method of accounting
- Method of accounting changed - adjustments in the following Y/A



Taxable  
Income

Assessable  
Income

# Taxable Income

Taxable income comprises the following :-

- Assessable income from employment
- Assessable income from business
- Assessable income from investment
- Assessable income from others

Following could be deducted in arriving at the taxable income :

- Qualifying payments
  - Reliefs
- } Schedule 05



# Assessable Income

Resident

- Income – Wherever the source arises

Non-resident

- Income arising in or derived from a source in SL



# Deductions

# S.11 - Main Deduction

IRA 2006	IRA 2017
<p>Subject to the provisions of subsections (2) and (4), there shall be deducted for the purpose of ascertaining the profits or income of any person from any source, <u>all outgoings and expenses</u> incurred by such person in the production thereof, including—</p>	<p>In calculating a person's income from a business or investment for a year of assessment, <u>expenses to the extent they are incurred during the year</u> by the person and in the production of income from the business or investment, shall be deducted.</p>

(2) No deduction shall be allowed under subsection (1) for an **expense of a capital nature**.

(3) In this section, “expense of a capital nature” includes an **expense that secures a benefit capable of lasting longer than twelve months**.

**S.11**

# Specific Deductions

- **Interest expenses – S.12**
- **Deductible amount of financial cost - S.18**
- Allowance for trading stocks – S.13
- **Repairs & improvements – S.14**
- R & D exp. & agricultural start up expenses – S.15
- **Capital Allowances & balancing allowances – S.16**
- Losses on realization of business assets & liabilities – S.17
- **Business or investment losses – S.19**

# 'Interest' includes

- “(a) a payment, including of a discount or premium, made under a debt obligation that is not a return of capital;
- (b) a swap or other payment functionally equivalent to interest;
- (c) a commitment, guarantee or service fee paid in respect of a debt obligation or swap agreement; and
- (d) a distribution by a building society;”

**S.195**

# Interest Expense

For the purposes of section 11, the interest incurred by a person during a year of assessment under a debt obligation of the person shall be **deemed to be incurred in the production of income** to the extent that –

(a) where the debt obligation was incurred in borrowing money, the **money is used** during the year or was used to **acquire an asset that is used during the year in the production of income**; and

(b) in any other case, the debt obligation was incurred in the production of income.

S.12

# Finance Cost

“The amount of financial costs deducted in calculating an entity’s income, other than a financial institution from conducting a business or investment for a year of assessment shall not exceed the amount of financial costs attributable to financial instruments within the limit....”

Limit does not apply to financial institutions

- Manufactures – 1:3
- Other than manufactures - 1:4
- All entities (related/non related)

S.18

# Repair and Maintenance

- Deductible whether capital expenditure or not
- Buildings, structure and similar works of a permanent nature – 5% of WDV
- Others – 20% of WDV
- Excess - added to the depreciation basis of the asset

S.14



# Capital Allowance Rates

Asset	2006 Act	2017 Act
Computers & peripheral devices	25%	20%
Plant, Machinery & Equip	33 1/3%	20%
Railroad cars, locomotives & equip	20%	20%
Qualified Building	10%	5%
Intangible assets excluding goodwill	10%	actual useful life or 5% if indefinite useful life

S.16

# Transitional Provisions - 2064/53

The allowance for depreciation in respect of any -

(a) capital asset acquired prior to April 1, 2006, any qualified building constructed or any building acquired prior to April 1, 2006 ; or

(b) capital asset acquired on or after April 1, 2006, but prior to April 1, 2018, any qualified building constructed or any building acquired on or after April 1, 2006, but prior to April 1, 2018.

Shall be computed in accordance with the respective provision of the Inland Revenue Act, No. 10 of 2006 and be deducted.

# Balancing Allowance

$$\text{Balancing allowance} = B - A$$

**A = consideration received**

**B = written down value of the asset at the time of realization**

S.16

# Business loss or Investment Loss

## Current

- Deduction - 35% of the TSI
- Loss C/F indefinite

## New IRA

- Deduction - no limitation
- Loss C/F - 6 yrs

# Transitional Provisions - 2064/53

Where any provision of the Inland Revenue Act, No. 10 of 2006 provides for the deduction of any loss in ascertaining the assessable income of any person for any year of assessment, and any balance of such loss as at March 31, 2018, shall deemed to be the **loss incurred for the year of assessment commencing on or after April 1, 2018** under the Inland Revenue Act, No. 24 of 2017 and be deductible in accordance with the Inland Revenue Act, No. 24 of 2017

# Expenses

(2) Where a person is allowed a deduction for a payment from which the person is required to **withhold tax under** Division II of Chapter VIII, the deduction shall not be allowed until the tax withheld has been paid to the Commissioner- General.

(3) No deduction shall be allowed except as expressly permitted by this Act.

(4) Where **more than one deduction** applies, the most specific deduction shall be applied even if that results in the denial of a deduction.

S.10 (2), (3), (4)

# Prohibited deductions

- No deduction will be allowed against the employment income
- Domestic expenses
- Income Tax
- Interest, penalties and fines payable to a Govt
- Expenditure incurred to the extent in deriving exempt amounts or final WH payments
- Retirement contributions
- Dividends
- Entertainment expenses
- Reserves or provisions in the financial accounts
- Amounts incurred on lotteries, betting or gambling (other than by conducting a business)
- Taxes or other levies specified by the CG.

S.10 (1)



# Long Term Contracts



# Long Term Contact S. 25

## What is a long term contact ?

long-term contract” means a contract –

(a) for **manufacture, installation or construction** or, in relation to each, the performance of related services; and

(b) which is **not completed within twelve months** of the date on which work under the contract commences.

**P/L= income of the Contract –  
deduction for that yr**

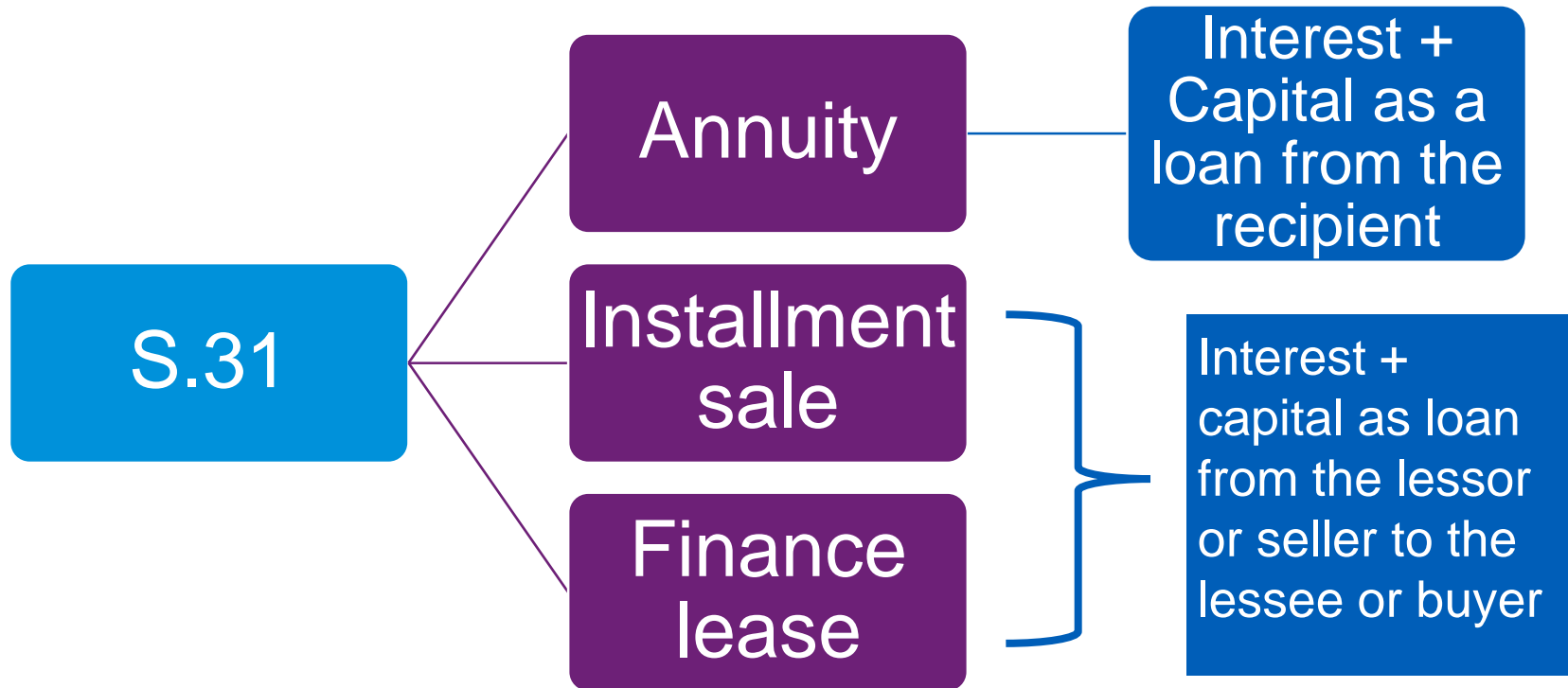
# Long Term Contact S. 25

- **Accrual basis**
- **Percentage completed** = comparing the total expenses allocated to the contract and incurred before the end of a Y/A **with** the estimated total contract expenses at the beginning of the contract
- The CGIR may allow the unrelieved loss to be **carried back** and treated as an unrelieved loss of an earlier year of assessment for the purpose of S.19

# Transitional Provisions - 2064/53

In case of any **non-resident** person whose profit from any project in Sri Lanka has been ascertained by the CGIR, in accordance with the section 83 of the Inland Revenue Act, No. 10 of 2006, prior to April 01, 2018, as a percentage of the sum receivable from trade or business of such person, such percentage of the sum receivable from that project **shall be continued for any year of assessment commencing from April 01, 2018**

# Annuities, Installment Sales & Finance Lease S.31



Blended loan – compounded semi annually or GAAP

# Annuities, Installment Sales & Finance Lease S.31

## Finance Lease :-

- Transfer of ownership following the end of the lease term or the lessee has an option to acquire the asset after expiry of the lease term for a fixed or presupposed price
- Lease term exceeds 75% of the useful life of the asset
- Estimated market value of the asset after expiry of the lease term is less than 25% of its market value at the start of the lease
- A lease that commences before the last 25% of the useful life of the asset, the present value of the minimum lease payments equals or exceeds 90% of the market value of the asset at the start of the lease term
- The asset is custom-made for the lessee

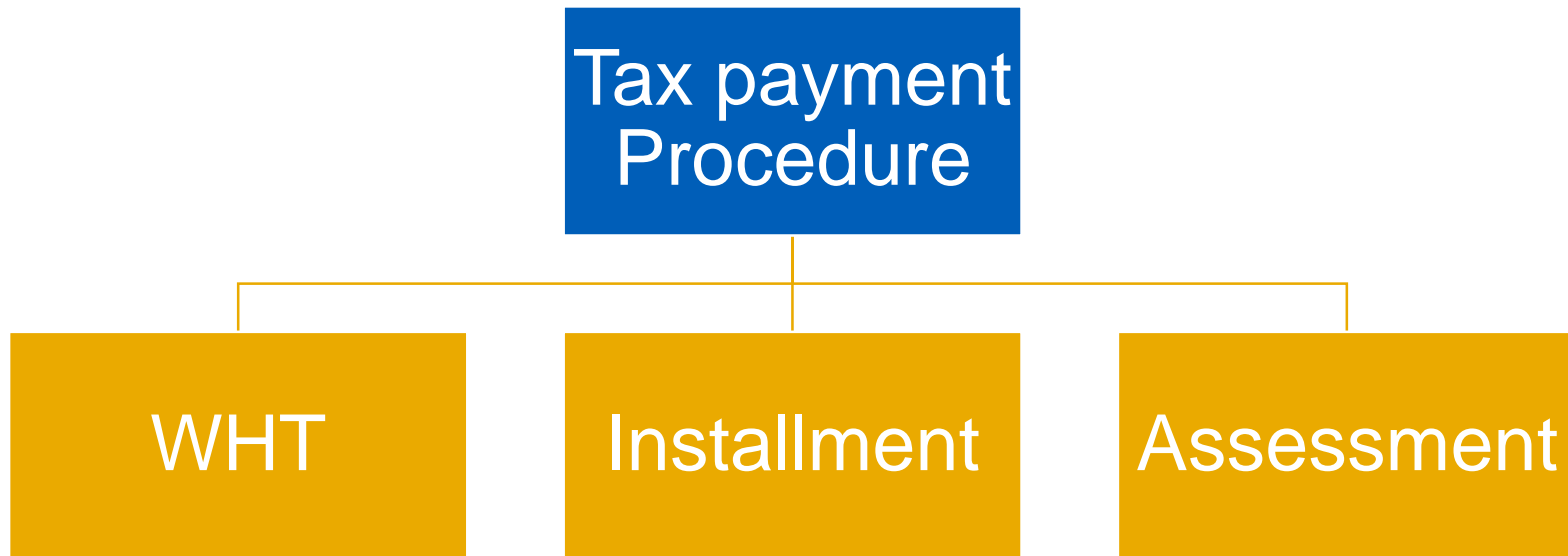
# Transitional Provisions - 2064/53

Any profit, loss, receipt or payment in respect of any **finance lease agreement entered into, prior to April 1, 2018**, shall be computed in accordance with the respective provisions of the Inland Revenue Act, No. 10 of 2006



# Tax Payment Procedure

# Tax Payment Procedure - S.82

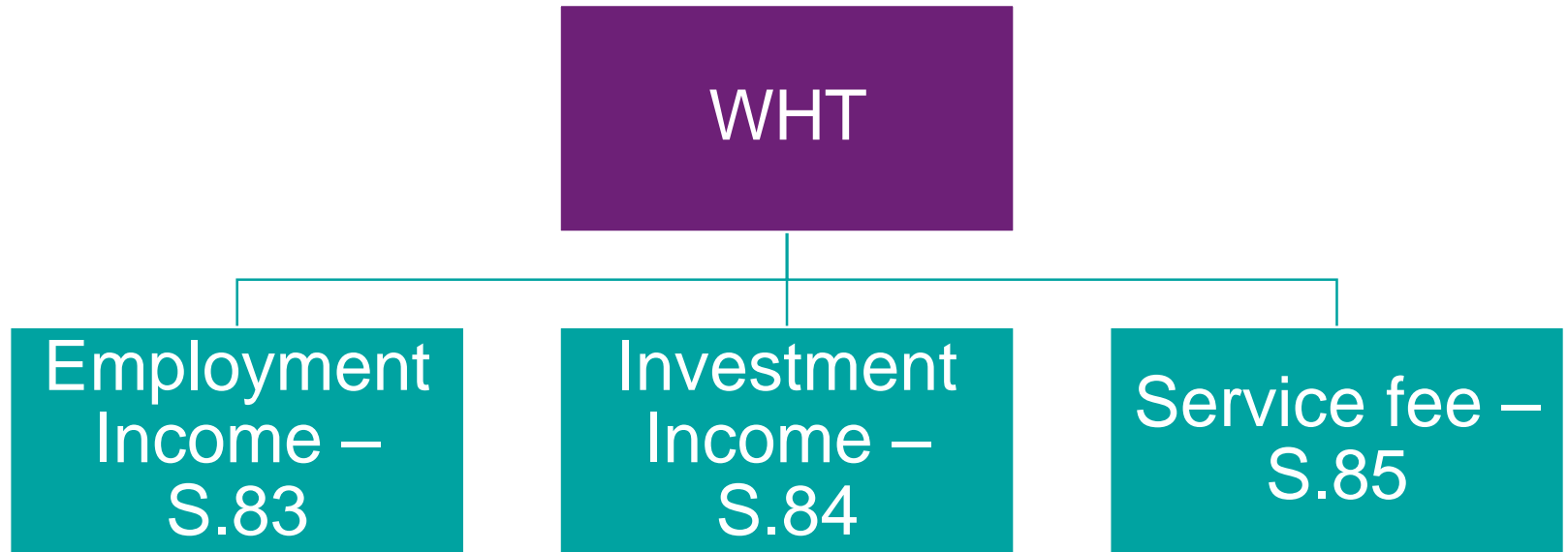






# Tax payable - Withholding

# Types of WHT



- Pay the withheld amount before 15 days from the end of the month
- Annual statement – on or before 30 days after the year end

# Withholding by Employees

## As per the tax tables

- Table 01 - Monthly Tax Deductions from Regular Profits from Employment (Primary)
- Table 02 - Tax from Lump-sum Payments
- Table 03 – Terminal Benefits
- Table 04 – Non resident employees
- Table 05 - Tax on cumulative profits from Employment
- Table 06 – Tax on tax
- Table 07 - Tax on secondary employment

# Withholding by Employees

## Primary Employment

- employee has provided an employer with a declaration for that year.
- LKR 1.2mn
- Not more than one primary employment

## Secondary Employment

- Any employment that is not the primary employment of the employee

# WHT– Investment

Investment income	Rate
Interest /discount (loan/deposits) – residents (including senior citizens) & non-residents	5%
Rent - residents - Non -residents	10% 14%
<ul style="list-style-type: none"> <li>• Dividend</li> <li>• Charge</li> <li>• Natural resource payments</li> <li>• Royalty</li> <li>• Premium</li> <li>• Retirement payments</li> </ul>	14%
Winnings from lottery, reward, betting and gambling	Over 500k at 14%
Partner’s relevant share of profits	8%
Gems sold at the auction	2.5%

# WHT – Service Fees @ 5%

## Resident individuals

- Teaching, lecturing, examining, invigilating supervising of examination
- A commission or brokerage to a resident insurance, sales or canvassing agent;
- Endorsement fee
- Supply of any article on a contract basis through tender or quotation
- Independent service providers such as doctors, engineers, accountants, lawyers, software developers, researchers, academics, or any other similar service
- Any service of construction work, security service, janitorial service, consultation work of any kind, catering, designers, dress makers, tour guidance, entertainment, agency functions or any similar services or connected work where such services are provided under an agreement or otherwise
- Management service
- Vocational services - independent service provider.

# WHT – Non residents

Payments	Rates
<ul style="list-style-type: none"><li>• Service Fee – source in SL</li><li>• Insurance premium</li></ul>	14% or DTA lower rate
<ul style="list-style-type: none"><li>• Land, sea, air transport</li><li>• Telecommunication business</li></ul>	2% or DTA lower rate

(if no PE in SL – Final Tax )

“service fee” means a payment to the extent to which, based on market values, it is reasonably attributable to services rendered by a business of a person, but excludes interest, rent or a royalty – S.195



# Tax Payable – Installment



# Payment of Taxes

## Tax on Capital gains

- Within 01 month of realization of the assets/liabilities

## Income Tax installments

- If Y/E 31 Mar – 15<sup>th</sup> Aug, 15<sup>th</sup> Nov, 15<sup>th</sup> Feb, 15<sup>th</sup> May
- Different Y/E – 15<sup>th</sup> day immediately succeeding the end of 3 month period
- Final payment – 6 months after the end of Y/A

# Power of the CGIR – Tax Estimates

S.91  
(1)

- File the estimate of AI, TI & the tax payable for the year with the 1<sup>st</sup> installment

S.91  
(6)

- Revised estimate – quarterly payment

S.92  
(1)

- CGIR may notify that no requirement to file an estimation – installment payer or class

S.92  
(2)

- CGIR will determine the estimated tax payable and notify the taxpayer

S.150

- Refund with interest, late fees or penalty. No period specified/ advance tax for 6 months

S.158  
(2)

- Rate of 0.5% compounded monthly

# CGIR Estimate

- (1) The Commissioner-General may specify by notice in writing that an **instalment payer or class** of instalment payers is not required to submit an estimate under section 91.
- (2) Where an instalment payer is not required to submit an estimate by reason of subsection (1), the Commissioner-General shall –
  - (a) make an estimate of the person's estimated tax payable for the year of assessment, which may be based on the tax **payable for the previous Year of Assessment with an uplift**; and
  - (b) serve on the instalment payer a written notice stating the Commissioner-General's estimate and the manner in which it is calculated.

S. 92

# Transitional Provisions – S.203

For the purpose of calculating the amount of each instalment of tax payable by an instalment payer under section 90 for the first year of assessment commencing on or after 1 April 2017, the instalment payer may assume that its **current estimated tax payable for that year of assessment is equal** to the amount of tax that was payable by the instalment payer in the previous year of assessment, **increased by an uplift of five percent**. A person shall not be required to pay tax by quarterly instalments under section 90 where that person had no tax payable in the previous year of assessment.



# Returns

# Returns

Capital Gains- 01 month after the realization

Income Tax : 08 month after the end of the Y/A.  
CGIR can grant extension

- Y/E March – 30 November

No Return filing: only employment income & tax payable by final WHT



# Thank you

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