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SOCIALIST REPUBLIC OF
SRI LANKA**

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SUPPLEMENT

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INLAND REVENUE (AMENDMENT)

A

BILL

to amend the Inland Revenue Act, No. 24 of 2017

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STATEMENT OF LEGAL EFFECT

Clause 2 : This clause amends section 5 of the Inland Revenue Act, No. 24 of 2017 (hereinafter referred to as the “principal enactment”), and the legal effect of the section as amended is to exempt contributions made by an employer to a gratuity fund when calculating an individual’s gains and profits from an employment.

Clause 3 : This clause amends section 6 of the principal enactment, and the legal effect of the section as amended is to expand the categories of businesses in respect of which investment incentives and temporary concessions may be given.

Clause 4 : This clause amends section 10 of the principal enactment, and the legal effect of the section as amended is to disallow the tax paid by the employer on behalf of the employee, as a deduction.

Clause 5 : This clause amends section 14 of the principal enactment for the purpose of clarity.

Clause 6 : This clause amends section 16 of the principal enactment for the purpose of clarity.

Clause 7 : This clause amends section 18 of the principal enactment, and the legal effect of the section as amended is to specify the deductible amount of financial cost of a company.

Clause 8 : This clause amends section 19 of the principal enactment, and the legal effect of the section as amended is to disallow the deduction of any loss from a gain of an investment asset.

Clause 9 : This clause amends section 20 of the principal enactment, and the legal effect of the section as amended is to make provisions to enable a trust or company to change its year of assessment.

Clause 10 : This clause amends section 68 of the principal enactment, and the legal effect of the section as amended is to make provisions to require a non-governmental organization to pay a specified additional tax.

Clause 11 : This clause amends section 70 of the principal enactment for the purpose of clarity.

Clause 12 : This clause amends section 84 of the principal enactment for the purpose of clarity.

Clause 13 : This clause amends section 85 of the principal enactment, and the legal effect of the section as amended is to exclude the service fees and contract payments from the withholding tax liability, if a certificate is presented confirming the making of relevant payments.

Clause 14 : This clause amends section 87 of the principal enactment, and the legal effect of the section as amended is to extend the period within which the withholding certificate shall be served on the withholder.

Clause 15 : This clause amends section 88 of the principal enactment for the purpose of clarity.

Clause 16 : This clause amends section 129 of the principal enactment, and the legal effect of the section as amended is to require a person to file a return of information or annual statement.

Clause 17 : This clause amends section 139 of the principal enactment, and the legal effect of the section as amended is to require the furnishing of a return or annual statement when an objection is made against an assessment.

Clause 18 : This clause amends section 195 of the principal enactment, and the legal effect of the section as amended is to broaden the definition of the term “agricultural businesses”.

Clause 19 : This clause amends the First Schedule to the principal enactment, and the legal effect of the Schedule as amended is to-

- (a) limit the relevant income tax liability to businesses engaged in manufacture or import and sale of any liquor or tobacco product; and
- (b) specify a rate of tax in relation to payment of royalty.

Clause 20 : This clause amends the Second Schedule to the principal enactment, and the legal effect of the Schedule as amended is to-

- (a) provide for granting enhanced capital allowances to persons who invest in new businesses as well as in the expansion of an existing business; and
- (b) provide for the exemption of certain employment income from the Withholding Tax.

Clause 21 : This clause amends the Third Schedule to the principal enactment, and the legal effect of the Schedule as amended is to grant tax exemptions on-

- (a) interest accruing to or derived by charitable institutions that provide care to children, the elderly or the disabled;
- (b) a sum of money received by any person from the President’s Fund or the National Defence Fund or by any Public Corporation from the Consolidated Fund or out of any loan arranged through the Government;
- (c) income earned by a resident or non-resident on sovereign bonds issued by or on behalf the Government;
- (d) dividends paid by certain resident companies under specified circumstances and by other companies engaged in specified businesses.

Clause 22 : This clause amends the Fifth Schedule to the principal enactment, and the legal effect of the Schedule as amended is to expand the scope of the qualifying payments and reliefs.

Clause 23 : This clause amends the Sixth Schedule to the principal enactment, and the legal effect of the Schedule as amended is to expand the scope of temporary concessions.

Clause 24 : This clause makes provisions to give retrospective effect to certain amendments made to the principal enactment.

Inland Revenue (Amendment)

L.D.—O. 19/2018

AN ACT TO AMEND THE INLAND REVENUE ACT, NO. 24 OF 2017

BE it enacted by the Parliament of the Democratic Socialist Republic of Sri Lanka as follows:—

1. This Act may be cited as the Inland Revenue (Amendment) Act, No. of 2019. Short title.

5 **2.** Section 5 of the Inland Revenue Act, No. 24 of 2017 (hereinafter referred to as the “principal enactment”) is hereby amended in subsection (3) of that section as follows:— Amendment of section 5 of the Inland Revenue Act, No. 24 of 2017.

(1) in paragraph (c) of that subsection, by the substitution for the words “on equal terms;” of the words “in the same grade of the service, on equal terms;”;

(2) in paragraph (f) of that subsection, by the substitution for the words “provident or savings fund or savings society” of the words “provident, gratuity or savings fund or savings society”.

15 **3.** Section 6 of the principal enactment is hereby amended in paragraph (d) of subsection (2) of that section, by the substitution for the words “the Second or Fourth Schedule to this Act”, of the words “the Second, Fourth or Sixth Schedule to this Act”. Amendment of section 6 of the principal enactment.

20 **4.** Section 10 of the principal enactment is hereby amended as follows:— Amendment of section 10 of the principal enactment.

(1) in paragraph (b) of subsection (1) of that section—

(a) in subparagraph (v) of that paragraph, by the substitution for the words “provident or

savings fund” of the words “provident, gratuity or savings fund”;

5 (b) in subparagraph (ix) of that paragraph, by the substitution for the words “betting or gambling; or” of the words “betting or gambling;”;

10 (c) in subparagraph (x) of that paragraph, by the substitution for the words “by the Commissioner-General.” of the words “by the Commissioner-General;”; and

(d) by the addition immediately after subparagraph (x) of that paragraph, of the following new subparagraph:–

15 “(xi) the total amount of tax paid by the employer on behalf of the employee.”;

20 (2) in subsection (2) of that section, by the substitution for the words “shall not be allowed” of the words “shall not be allowed where the tax is not withheld or”.

25 **5.** Section 14 of the principal enactment is hereby amended in subsection (3) of that section, by the substitution for the words and figure “(paragraph (3) of the Fourth Schedule)”, of the words and figure “(paragraph 3 of the Fourth Schedule)”. Amendment of section 14 of the principal enactment.

6. Section 16 of the principal enactment is hereby amended as follows:– Amendment of section 16 of the principal enactment.

30 (1) in paragraph (b) of subsection (2) of that section, by the substitution for the words “the Second or Fourth Schedule to this Act.” of the words “the Second, Fourth or Sixth Schedule to this Act.”;

(2) in subsection (4) of that section, by the repeal of paragraph (b) of that subsection and the substitution therefor of the following paragraph:—

5 “(b) calculated in accordance with the provisions of the Second, Fourth or Sixth Schedule to this Act.”.

7. Section 18 of the principal enactment is hereby amended in subsection (1) of that section, by the substitution for the words “in calculating an entity’s income,” of the words “in calculating a company’s income,”. Amendment of section 18 of the principal enactment.

8. Section 19 of the principal enactment is hereby amended in subsection (5) of that section, by the substitution for the words “reduced by any loss on the disposal of another investment asset.”, of the words “reduced by any loss.”. Amendment of section 19 of the principal enactment.

15 9. Section 20 of the principal enactment is hereby amended as follows:— Amendment of section 20 of the principal enactment.

(1) in subsection (2) of that section, by the substitution for the words “its year of assessment” of the words “the period of twelve months constituting a year of assessment”;

20 (2) in subsection (3) of that section, by the substitution for the words “in a trust or company’s year of assessment shall”, of the words and the figure “approved under subsection (2) shall not”.

25 10. Section 68 of the principal enactment is hereby amended in subsection (1) of that section, by the substitution for the words “additional tax of three *percent* on amounts” of the words “additional tax on three *percent* of amounts”. Amendment of section 68 of the principal enactment.

30 11. Section 70 of the principal enactment is hereby amended in subsection (1) of that section, by the substitution for the words and figures “paragraph (c) of subsection (1) of section 69,” of the words and figures “paragraph (b) of subsection (1) of section 69,”. Amendment of section 70 of the principal enactment.

12. Section 84 of the principal enactment is hereby amended in paragraph (c) of subsection (3) of that section, by the substitution for the words “provided by it; or” of the words “provided by it;”. Amendment of section 84 of the principal enactment.

5 **13.** Section 85 of the principal enactment is hereby amended in subsection (3) of that section, by the repeal of paragraph (d) of that subsection and the substitution therefor of the following paragraph:– Amendment of section 85 of the principal enactment.

10 “(d) payments of service fees and contract payments in respect of which a certificate is presented by the recipient person confirming that the payments which are chargeable with the Economic Service Charge under the Economic Service Charge Act, No. 13 of 2006 have been paid.”. 15

14. Section 87 of the principal enactment is hereby amended in paragraph (b) of subsection (4) of that section, by the substitution for the words “of that year or,” of the words “of the subsequent year or,”. Amendment of section 87 of the principal enactment.

20 **15.** Section 88 of the principal enactment is hereby amended as follows:– Amendment of section 88 of the principal enactment.

(1) in paragraph (d) of subsection (1) of that section, by the substitution for the words and figures “paragraph (b) of subsection (2) of section 84” of the words and figures “paragraph (b) of subsection (3) of section 84”; 25

(2) in subsection (3) of that section, by the substitution for the words and figures “paragraph (b) of subsection (2) of section 84”, of the words and figures “paragraph (b) of subsection (3) of section 84”. 30

16. Section 129 of the principal enactment is hereby amended by the substitution for the words “to file a return of information related to matters”, of the words “to file a return of information or annual statement”.

Amendment of section 129 of the principal enactment.

5 17. Section 139 of the principal enactment is hereby amended by the repeal of subsection (3) of that section and the substitution therefor of the following subsection:-

Amendment of section 139 of the principal enactment.

10 “(3) Where the request is an objection against an assessment which has been made in the absence of a return or annual statement required to be made, the notice of request relating to the objection shall be sent together with a return or annual statement duly made, as the case may be.”.

15 18. Section 195 of the principal enactment is hereby amended in subsection (1) of that section as follows:-

Amendment of section 195 of the principal enactment.

(1) by the substitution, for the definition of the expression “agricultural business” of that subsection, of the following definition:-

20 ““agricultural business” means, the business of producing any agricultural, horticultural or animal produce and includes-

25 (a) an undertaking for the cleaning, sizing, sorting, grading, chilling, dehydrating, packaging, cutting or canning for the purpose of preparation of such agricultural, horticultural or animal produce for the market; and

(b) an undertaking for the purpose of rearing livestock or poultry;”;

30 (2) in paragraph (a) of the definition of the expression “dividend”, by the substitution for the words “share buy-back”, of the words “share buy-back”.

19. The First Schedule to the principal enactment is hereby amended as follows:–

Amendment
of the First
Schedule to
the principal
enactment.

(1) in paragraph 1 of that Schedule–

(a) in subparagraph (3) of that paragraph–

5 (i) by the substitution for the words and the figure, “referred to in subparagraph (2) shall be–”, of the words and the figure “referred to in item (b) of subparagraph (2) shall be–”;

10 (ii) in item (c) of that subparagraph, by the substitution for the words “by the employer;” of the words “by the employer; and”;

15 (iii) by the repeal of items (d) and (e) of that subparagraph; and

(iv) by the re-lettering of item (f) of that subparagraph, as item (d) thereof;

20 (b) in subparagraph (4) of that paragraph, by the substitution for the words “liquor or tobacco.”, of the words “manufacture and sale or import and sale of any liquor or tobacco product.”;

25 (2) in item (iii) of subparagraph (3) of paragraph 4 of that Schedule, by the substitution for the words “based on gross income”, of the words “based on gross income (other than investment income) of the business.”;

30 (3) in the heading of paragraph 8 of that Schedule, by the substitution for the words “Provident or Pension Funds” of the words “Provident, Pension or Gratuity Funds”;

(4) in subparagraph (1)(b) of paragraph 10 of that Schedule-

5 (a) in item (iii) of that subparagraph, by the substitution for the words and figures “rent paid to a resident person-10%; and”, of the words and figures “rent paid to a resident person-10%, if the rent exceeds Rs. 50,000 per month or Rs. 500,000 per year of assessment;”;

10 (b) by the insertion immediately after item (iii) of that subparagraph, of the following new item:-

15 “(iv) in the case of royalty paid to a resident person-14% if the payment exceeds Rs. 50,000 per month or Rs. 500,000 per year of assessment; and”;

(c) by the renumbering of item (iv) of that subparagraph, as item (v) thereof.

20 **20.** The Second Schedule to the principal enactment is hereby amended as follows:-

Amendment of the Second Schedule to the principal enactment.

(1) in paragraph 1 of that Schedule, by the repeal of subparagraph (1) and the substitution therefor of the following subparagraph:-

25 “(1) Enhanced capital allowances computed in accordance with this paragraph shall be granted-

30 (a) in addition to the capital allowances computed under the Fourth Schedule, to a person who invests in Sri Lanka (other than the expansion of an existing business), during a year of assessment;

(b) instead of the capital allowances computed under the Fourth Schedule, to a person who invests in Sri Lanka for the expansion of an existing business, during a year of assessment.”;

(2) by the repeal of paragraph 3 of that Schedule, and the substitution therefor of the following paragraph:—

“Exemption of Employment Income from Withholding Tax

3. Notwithstanding anything in the First Schedule, the rate of tax to be withheld from a payment made by an employer to an expatriate employee shall be zero, if the company making the payment has incurred more than USD 1,000 million on depreciable assets other than intangible assets in Sri Lanka or is entitled to an enhanced capital allowance under subparagraph (5) of paragraph 1, and that payment is made out of profits sheltered by enhanced capital allowances under this Schedule, where the number of expatriate employees does not exceed twenty.”.

21. The Third Schedule to the principal enactment is hereby amended as follows:—

Amendment of the Third Schedule to the principal enactment.

(1) in paragraph (a) of that Schedule, by the addition immediately after subparagraph (vii) of that paragraph, of the following:—

“Provided, however, that the exemption under this paragraph shall not apply to—

(i) the gains and profits from dividends or interest of any institution other than

institutions specified in subparagraph (i) and subparagraph (ii); and

- 5 (ii) in the case of institutions specified in subparagraph (i) and subparagraph (ii), any amount disallowable under subparagraph (xi) of paragraph (b) of subsection (1) of section 10;”;
- 10 (2) in subparagraph (ii) of paragraph (d) of that Schedule, by the substitution for the words “by the Commissioner-General;”, of the words “by the Commissioner-General or a regulated provident fund;”;
- 15 (3) by the repeal of paragraph (i) of that Schedule and the substitution therefor of the following:—
- “*(i)* the interest accruing to or derived by—
- 20 (i) a charitable institution, where it is proved to the satisfaction of the Commissioner-General that such interest is applied solely for the purpose of providing care to children, the elderly or the disabled in a home maintained by such charitable institution;
- 25 (ii) any person outside Sri Lanka on any loan granted to any person in Sri Lanka or to the Government of Sri Lanka by such person, other than on any loan granted to its holding company or a subsidiary company in Sri Lanka;
- 30 (iii) any person on moneys lying to his credit in foreign currency in any foreign currency account opened by

5 him or on his behalf, in any commercial bank or in any specialized bank, with the approval of the Central Bank of Sri Lanka, for a period of five years commencing from July 1, 2019;

10 (iv) any child who is a citizen of Sri Lanka and resident in Sri Lanka and who is less than 18 years old on the first day of the year of assessment, up to five thousand rupees per month, from any deposit maintained in any financial institution authorized by the Central Bank of Sri Lanka to accept deposits from the general public or any registered society within the meaning of the Co-operative Societies Law, No. 5 of 1972;”;

15
20 (4) by the repeal of paragraph (k) of that Schedule, and the substitution therefor of the following:–

“(k) any sum received by–

25 (i) any person from the President’s Fund established by the President’s Fund Act, No. 7 of 1978 or the National Defence Fund established by the National Defence Fund Act, No. 9 of 1985;

30 (ii) any Public Corporation out of the funds voted by Parliament from the Consolidated Fund or out of any loan arranged through the Government;”;

- (5) by the repeal of paragraph (l) of that Schedule, and the substitution therefor of the following:-

“(l) any income earned by-

- 5 (i) any non-resident person other than a Sri Lankan permanent establishment by way of interest, discount or realization of any gain on any sovereign bond denominated in local or foreign currency;
- 10 (ii) any resident person by way of interest or discount paid or allowed, as the case may be, on any sovereign bond denominated in foreign currency, including Sri Lanka Development Bonds,
- 15 issued by or on behalf of the Government of Sri Lanka;”;

- (6) by the repeal of paragraph (o) of that Schedule, and the substitution therefor of the following:-

20 “(o) a dividend paid by-

- (i) a resident company to a member to the extent that dividend payment is attributable to, or derived from, another dividend received by that resident company or another resident company that was subject to withholding under section 84;
- 25
- (ii) any company engaged in any one or more of the following businesses in accordance with the provisions of Part IV of the Finance Act, No. 12 of
- 30

2012 and which has entered into an agreement with the Board of Investment of Sri Lanka established under the Board of Investment of Sri Lanka Law No. 4 of 1978:–

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(*ii a*) entrepot trade involving import, minor processing and re-export;

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(*ii b*) offshore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing the same into Sri Lanka;

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(*ii c*) providing front-end services to clients abroad;

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(*ii d*) headquarters operations of leading buyers for management of financial supply chain and billing operations;

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(*ii e*) logistics services including bonded warehouse or multi-country consolidation in Sri Lanka;”.

22. The Fifth Schedule to the principal enactment is hereby amended as follows:–

Amendment of the Fifth Schedule to the principal enactment.

(1) in paragraph 1 of that Schedule–

30

(*a*) in item (*ii a*) of subparagraph (*a*) of that paragraph, by the substitution for the words

“the taxable income”, of the words “the assessable income”;

5 (b) in item (iib) of subparagraph (a) of that paragraph, by the substitution for the words “the taxable income”, of the words “the assessable income”;

10 (c) in subparagraph (c) of that paragraph, by the substitution for the words “profits remitted to the President’s Fund”, of the words “any sum paid to the Consolidated Fund or to the President Fund”;

15 (2) in subparagraph (e) of paragraph 2 of that Schedule, by the substitution for the words “foreign currency in Sri Lanka,”, of the words “foreign currency and remitted to Sri Lanka through a bank,”.

23. The Sixth Schedule to the principal enactment is hereby amended as follows:—

Amendment of the Sixth Schedule to the principal enactment.

20 (1) in paragraph 1 of that Schedule, by the repeal of subparagraph (1) of that paragraph and the substitution therefor of the following subparagraph:—

25 “(1) Enhanced capital allowances on depreciable assets referred to in subparagraph (4), computed in accordance with this paragraph shall be granted—

30 (a) in addition to the capital allowances computed under the Fourth Schedule, to a person who invests in Sri Lanka (other than the expansion of an existing business), during a year of assessment;

(b) instead of the capital allowances computed under the Fourth Schedule, to a person who invests in Sri Lanka for the expansion of an existing business, during a year of assessment.”;

(2) in subparagraph (1) of paragraph 5 of that Schedule—

(a) in item (a) of that subparagraph, by the substitution for the words “within the meaning of the First Schedule;” of the words “within the meaning of the First Schedule; and”;

(b) by the repeal of item (b) of that subparagraph; and

(c) by the re-lettering of item (c) of that subparagraph, as item (b) thereof.

24. The amendments made by section 9 of this Act to section 20 of the principal enactment and the amendment made by section 21 of this Act to paragraph (i)(ii) and paragraph (l) of the Third Schedule to the principal enactment, shall be deemed, for all purposes, to have come into force on April 1, 2018. Retrospective effect.

25. In the event of any inconsistency between the Sinhala and Tamil texts of this Act, the Sinhala text shall prevail. Sinhala text to prevail in case of inconsistency.

