



Tax alert: **Inland Revenue (Amendment) Act No.14 of 2023**

11 September 2023

In light of the measures undertaken by the government to improve the economic stability of Sri Lanka, the Domestic Debt Optimisation (DDO) programme was approved in July 2023. This includes conversion/exchange of treasury bonds currently issued to Employees' Trust Fund (ETF), an approved provident or pension fund, or an approved termination fund to new treasury bonds.

A further amendment is made to the Inland Revenue Act No.24 of 2017 as amended (IRA), to encourage the exchange of the existing treasury bonds.

This alert details the provisions relating to this amendment as provided in the Inland Revenue (Amendment) Act No. 14 of 2023 certified by the Speaker on 08 September 2023. The provisions of the Amendment Act are deemed to come into operation on 01 April 2023.

Taxation of ETF, an approved provident or pension fund, or an approved termination fund

The income tax rate currently applicable for the ETF, an approved provident or pension fund, or an approved termination fund, is 14%.

The Amendment Act provides that the rate of 14% will continue to apply to such funds, in respect of the first six months of the year of assessment commencing from 01 April 2023. However, in respect of the latter six months of that year of assessment, and any year of assessment commencing on or after 01 April 2024, tax on the said funds will be eligible to be levied at the rate of 14%, on the gains and profits received or derived from treasury bonds, only if the following criteria is met.

If the treasury bonds held by such funds have been converted or exchanged as provided below.

- The ETF, an approved provident or pension fund or an approved termination fund have invested in eligible bonds and
- Such funds have **effectively participated** in the process of DDO approved by the Parliament by resolution dated 01 July 2023 and
- Confirmation from the Registrar of the Public Debt Department of the Central Bank of Sri Lanka has been received to this effect

Where such criteria are not met, the rate of 30% will apply in respect of the latter six months for the year of assessment 2023/24 and any year of assessment commencing on or after 01 April 2024.

This can be summarized as below.

Year of assessment		Tax Rate	Criteria
2022/23	Commencing from 01 April 2022	14%	
	First 6 months commencing from 01 April 2023	14%	
2023/24	Latter 6 months	14%	Provided the fund has participated in the DDO
	Latter 6 months	30%	The fund has not participated in the DDO
2023/24 onwards	Commencing from 01 April 2023	14%	Provided the fund has participated in the DDO
		30%	The fund has not participated in the DDO

Where the fund uses accounts based on an alternative period of 12 months for the computation of the income tax payable, for the year of assessment commencing on 01 April 2023, the income tax rates will apply for the alternative 12 months period.

Definitions

Year of assessment	
Approved termination fund	Any thrift, savings or building society or welfare fund to which contributions are made by employees only or, any gratuity fund approved by the Commissioner-General and maintained for the purpose of payment of gratuities to employees on the termination of their service, under the Payment of Gratuity Act, No. 12 of 1983
Effectively participated	The submission of offers by the Employees' Trust Fund, an approved provident or pension fund or an approved termination fund as below and acceptance of such offers by the Registrar of the Public Debt Department of the Central Bank of Sri Lanka.

Value of eligible bonds offered	Maturity year
Not less than 50% of the total holding of each series of eligible bonds and	2023
100% of the total holding of eligible bonds	Calendar years 2024 to 2032 (both inclusive)

The treasury bonds applicable for the purposes of DDO, issued under the Registered Stocks and Securities Ordinance (Chapter 420) that are-

Eligible bonds

- (a) maturing between 28 June 2023 and 31 December 2023 (excluding the treasury bonds maturing on 15 July 2023 and 01 September 2023); and
 - (b) maturing in the calendar years 2024 to 2032 (both inclusive).
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