



Tax update

Inland Revenue (Amendment) Act

No. 10 of 2021

May 2021

Inland Revenue (Amendment) Act No.10 of 2021

The Inland Revenue (Amendment) Act No. 10 of 2021 ("Amendment Act") certified by the Hon. Speaker on 13 May 2021, amends the Inland Revenue Act No. 24 of 2017 ("IRA").

A summary of the key amendments to the IRA is given below.

1. Employment income - Gains and profits excluded

Medical expenses

Under the existing provisions of the IRA, the exclusion given from employment income for a discharge or reimbursement of dental, medical, or health insurance expenses is available for full-time employees on equal terms.

This exclusion will be applicable to full-time employees **in the same grade of the service** on equal terms.

This is effective retrospectively from 1 April 2018.

Contribution to a gratuity fund

Under the IRA, 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 is excluded from employment income.

This exclusion is effective from 1 April 2018 to cover contributions to gratuity fund approved by the commissioner general.

2. General deductions

Retirement contributions to gratuity funds

An employer's **contribution to a gratuity fund** approved by the commissioner general has also been included as retirement contribution, eligible for exclusion in calculating an individual's income or profits from employment. This amendment is effective retrospectively from 1 April 2018.

3. Main deduction

Financial institutions – Loans for new business by individuals completing vocational education

Under the Amendment Act, a financial institution's cost of funds incurred on loans provided to individuals fulfilling the following requirements, is deemed to be incurred in the production of its income.

- The individual commenced the new businesses on or after 1 April 2021, after the successful completion of vocational education from any Vocational Education Institution, (which is standardised under Technical and Vocational Education and Training concept (**TVET concept**) and regulated by the Tertiary and Vocational Education Commission).

Accordingly, such cost will be allowed for tax purposes with effect from 1 April 2021.

4. Specific deductions

Repair or improvement

Expenses for repair or improvement of depreciable assets could be deducted subject to restriction under section 14 of the IRA. The restrictions placed on the deduction of repair costs have been removed.

Accordingly, effective from 1 April 2021, the restriction on deduction will apply only for improvement costs incurred in respect of depreciable assets. Repair costs on depreciable assets will be a fully deductible expense.

“Improvement” is newly defined as expenditure incurred by a person to make additions or alterations to a depreciable asset. This enhances the value of such asset but excludes expenditure incurred to maintain or repair a depreciable asset, temporarily increasing value of such asset.

Marketing and communication expenses

Effective from 1 April 2021, taxpayers are permitted to deduct marketing and communication expenses incurred by a person in the production of business income during the year of assessment, irrespective of whether expenses are of capital nature or not.

“Marketing and communication expenses” are defined as expenses incurred in:

- (a) Carrying out a market research by such person or any institution in Sri Lanka on his behalf
- (b) Development or production of a marketing, advertising, and communication campaign to the extent that such development or production is carried out in Sri Lanka
- (c) Advertising on mainstream or social media, including television, radio, print, or as outdoor advertising
- (d) Product launches or campaign activation carried out by such person or by any local institution on his behalf
- (e) Development and printing of point-of-sale material by such person or any local institution on his behalf

As a temporary concession, an additional deduction from business income is granted, equal to 100 percent of the total amount of marketing and communication expenses. This additional deduction is permitted for three years of assessment commencing from 1 April 2021.

However, the following conditions must be fulfilled to be entitled for the additional deduction.

- a) Payment must be made to a person who is not an associated person of the taxpayer;
- b) Internal marketing expenses, salaries of marketing staff, expenditure on maintaining an internal marketing department, expenditure on corporate social responsibility initiatives, and foreign travel expenses not eligible for additional deduction
- c) Expenditure shall be attributable to goods and services with 65 percent of the local value addition, the mode of calculation of which shall be as specified by the commissioner general
- d) Total additional deduction cannot not exceed LKR 500,000,000 in any year of assessment
- e) The commissioner general shall specify requirements to maintain records, source documents, and underlying documents for the purpose of additional deduction, in addition to the requirements of other sections of the IRA

Thin capitalisation

Deduction of an entity's financial cost was subject to the limit computed per the formula provided in Section 18 of the IRA.

This section has been amended with effect from 1 April 2021 to provide clarity on the application of the thin capitalisation rule.

Accordingly, the entity to which this requirement is applicable has been specified as, **a company (other than a financial institution) that is incorporated in or outside Sri Lanka and having an issued share capital as at the date on which the year of assessment ends.**

Under the IRA's existing provisions, a distinction was made between manufacturing companies and non-manufacturing companies regarding the extent of permitted deduction of financial costs.

This has been amended to revise the thin capitalisation formula to provide the same deduction limit without distinguishing between manufacturing companies and non-manufacturing companies.

The revised formula is as below.

A

-- X C

B

'A' = financial cost of the year

'B' = value of financial instruments on which the financial cost incurred during the year

'C' = 4 x total of the issued share capital and reserves of the company as at the end of the year

As a temporary concession, relief has been provided by removing the application of the thin capitalisation formula, for financial costs incurred during the year of assessment commencing on 1 April 2021 (i.e., for 2021/22 only). Note that the thin capitalisation limit will apply for un-deducted finance costs from previous years.

Any un-deducted financial costs under the revised thin capitalisation formula can be carried forward for up to six years of assessment subject to the revised limit.

The six-year carry forward limitation will not apply for financial costs incurred during the year of assessment 2021/22.

Deduction of losses for Small and Medium Entities (SME)*

Under the IRA, a loss that would have been taxed at a reduced rate had it been a profit, can be deducted only against profits of the same reduced rate, lower reduced rate, or exempt amounts.

An SME is taxed at a reduced rate of 14 percent.

Therefore, an amendment has been made effective from 1 April 2021, to facilitate the claiming of unrelieved losses by a company, , incurred during a period it operated as an SME, ,.

Accordingly, the loss incurred as an SME will be deemed , to be a loss that would have been subject to tax (if it were a profit), at the same rate of tax applicable to the current year and accordingly can be set off against a higher rate applicable to the current year.

However, this is subject to the limitation of six years permitted to carry forward unrelieved losses from a business.

* Definition of an SME amended under Section 195 of the IRA (refer para 21 of the tax alert)

5. Change in year of assessment

The existing provisions of the IRA permits a trust or company, to request approval to change the year of assessment other than for a period from 1 April to 31 March.

However, practically the DIR did not grant approval to change the year of assessment. It only permitted companies to consider accounting periods ending other than on 31 March, for the purpose of computing tax liability.

The provision has been removed with retrospective effect from 1 Apr 2018. Where a trust or company is unable to submit the accounts for the period 1 April to 31 March, such a trust or company may apply to the commissioner general requesting that the accounts based on an alternative period of 12 months be used to compute the income tax payable for a given year of assessment, as previously allowed under the Inland Revenue Act No. 10 of 2006.

This change shall not result in any change to statutory due dates for payments and filing of returns.

The commissioner general may approve such a request on such terms and conditions as he/she thinks fit. The commissioner general may revoke such approval if the trust or company fails to comply with terms and conditions attached to the approval.

Due dates for self-assessment payments

The below due dates for the quarterly self-assessment payments are applicable to taxpayers for the standard year of assessment (i.e., April to March). This change is effective retrospectively from 1 April 2018 in line with the practical approach adopted by the DIR (i.e., from the commencement of the IRA).

Taxable period	Due date
Quarter 1 (April to June)	15 August
Quarter 2 (July to September)	15 November
Quarter 3 (October to December)	15 February
Quarter 4 (January to March)	15 May (in the following year of assessment)

6. Gains and losses on realisation of assets

Assets used in the production of different gains and profits from business taxable at different tax rates

A provision has been introduced with effect from 1 April 2021, where an asset owned by a person is used to produce **different gains and profits from business (including losses) taxable at different tax rates, to apportion cost of the asset and consideration received** for the asset between such gains and profits, **according to the market value of parts of assets used to produce respective gains and profits.**

Consideration received

Amendment has been made effective from 1 April 2021, on the value to be considered as the “consideration received” for the purpose of calculating gains and losses on realisation of investment assets.

Accordingly, the consideration received for the realisation of an investment asset will be the higher of the:

- Amount received or receivable by the person in respect of such asset or
- Assessed value at the time of realisation

However, if a tax official of the opinion that the assessed value is not indicative of the market value of such asset, the official could determine the consideration received for an asset.

“Assessed value” has been defined to mean the value at the time of the realisation, certified by a professionally qualified valuer in a valuation report.

7. Remittance tax

Exemption	Effective date	Remarks
Remittance tax (14 percent on remitted profits) paid by a non-resident company carrying on a business in Sri Lanka through a Sri Lankan permanent establishment, which earns profits and income provided that the total profits: <ul style="list-style-type: none"> Are retained for a minimum period of three years commencing from the first day of the immediately succeeding year of assessment in which the income is earned and The same is invested in Sri Lanka to expand its business or acquire shares or securities from the Colombo Stock Exchange licensed by the Securities and Exchange Commission of Sri Lanka or acquire any treasury bill, treasury bond, or Sri Lanka International Sovereign Bond issued on behalf of the Government of Sri Lanka 	On or after 1 April 2021	The exemption is applicable on such retained and invested profit, remitted any time after three years.

8. Finance institutions

Reversal, reduction, or payment of a specific provision previously allowed

Where a specific provision for a debt claim was previously allowed by a banking business as a deduction (in line with relevant directives of the Central Bank of Sri Lanka), has been reversed, reduced, or paid during the year in full or part, the amount reversed, reduced, or paid must be included in calculating such person's income.

This amendment is effective retrospectively from 1 April 2018.

Preparation and maintenance of records for a specific provision

A person conducting a banking business prepare and retain records in respect of specific provisions for a debt claim, in such form as may be specified by the commissioner general, in addition to the records, accounts, or any other document required to be prepared as referred under the IRA.

This amendment will be effective from 1 April 2021.

Definitions

The following definitions have been provided regarding the above provisions applicable to a banking business, effective retrospectively from 1 April 2018.

“Debt claim” does not include the right to receive a payment on deposits, debentures, stocks, treasury bills, promissory notes, bills of exchange, and bonds.

“Directives made by the Central Bank of Sri Lanka” means any directives issued to make specific provisions relating to bad and doubtful debts under subsection (1) of section 76J of the Banking Act, No. 30 of 1988 or under subsection (1) of section 12 of the Finance Business Act, No. 42 of 2011 or under subsection (1) of section 9 of the Finance Companies Act, No. 78 of 1988 by the Central Bank of Sri Lanka and applicable to the relevant year of assessment, but excludes any directives issued in relation to the adaptation of Sri Lanka Accounting Standards.”.

9. Double taxation agreements or mutual administrative assistance agreements

The existing provisions of the IRA have been amended with retrospective effect from 1 April 2018, to facilitate application of the double taxation agreement or mutual administrative assistance agreement entered between the Government of Sri Lanka and the Government of any other territory.

The definition of “double taxation agreement” has been amended as follows:

Previous provision	Amended provision
“Double taxation agreement” means an international agreement relating to the avoidance of double taxation and the prevention of fiscal evasion.	“Double taxation agreement” means an international agreement for the purpose of affording relief from double taxation in relation to income tax under Sri Lanka law and any taxes of a similar character imposed by the laws of the other territory, and the prevention of fiscal evasion.

10. Transfer pricing

Definition of “Permanent Establishment” (PE)

For the purpose of transfer pricing, any business organisation from a country that does not have a double taxation avoidance agreement (DTAA) with Sri Lanka, has been excluded from the definition of a “Permanent Establishment” (PE).

Accordingly, only a business organisation from a country that has a DTAA with Sri Lanka, will be considered a PE for transfer pricing considerations.

The amendment will be effective retrospectively from 1 April 2018.

Branch office

Under the existing provisions of the IRA, a PE and its head office, or other related branches in Sri Lanka are considered as distinct and separate entities for the purpose of transfer pricing and maintaining an arm’s length price for transactions.

Provision has been made to include branch offices that are not established in Sri Lanka as well from a transfer pricing perspective.

The amendment is effective retrospectively from 1 April 2018.

Transfer pricing audit

The following amendments are effective retrospectively from 1 April 2018, regarding the orders issued by the Technical Review Committee during the process of a transfer pricing audit.

- The technical review committee can annul the preliminary order of the transfer pricing officer (in addition to either confirming, reducing, or enhancing the arm’s length price).
- An interim order will be issued where the **majority of the members** of the committee are in agreement (final order, issued only when the committee members are in agreement).

11. Advance Personal Income Tax (APIT)

The responsibility placed on employers, for the deduction of Pay As You Earn (PAYE) tax from the emoluments paid to employees' has been removed with effect from 1 January 2020.

Instead, a mechanism of APIT has been introduced with effect from 1 April 2020. Accordingly, the employer will be required to deduct APIT from emoluments paid to its employees as below.

- (a) Non-residents or non-citizens of Sri Lanka (mandatory deduction)
- (b) Residents and citizens of Sri Lanka (subject to receiving consent for deduction of APIT)

APIT deducted for a non-resident person who is also a non-citizen will be a final Withholding Tax (WHT)

APIT deducted or to be deducted by the employer for employees who are resident or citizens of Sri Lanka, can be claimed as a credit when calculating the quarterly self-assessment payment.

Accordingly, even an employee for whom APIT is deducted will now be required to file a return of income.

12. Withholding Tax (WHT)

Payments to residents

Effective from 1 January 2020, WHT has been removed in respect of payments made to resident persons for the following:

- Investment income (i.e., for dividends, interest, discount, charge, natural resource payment, rent, royalty, premium, or retirement)

However, WHT on payments for winnings from lottery, reward, betting, or gambling will continue to apply and the WHT will continue to be considered as a final tax. This excludes amounts received in conducting a business of betting and gaming.

- Service fee payments

Payments to non-residents

WHT will continue to apply in respect of payments made to a non-resident with a source in Sri Lanka as dividend, interest, discount, charge, natural resource payment, rent, royalty, premium, service fee, or an insurance premium.

Payment *	WHT rate	Effective date
Dividends	Exempt	1 January 2020
Interest (excluding exempt interest) or discount	5 percent	
Payments in respect of land, sea, or air transportation and telecommunication services to a non-resident person	2 percent	
All other payments	14 percent	

*Subject to the provisions of the applicable DTAA.

Final WHT payments

Effective from 1 January 2020, the following payments will be considered as a final WHT:

- a) Payments subject to WHT and made to:
 - A **non-resident person who is a non-citizen**
 - A **non-resident entity** (excluding payments derived through a Sri Lankan PE)
- b) **Interest** paid to or treated as being derived by a **non-resident individual who is a citizen of Sri Lanka**. However, the following interest payments will not be final WHT payments.
 - Interest amount falling within the relief threshold of LKR 3 M
 - Interest payment in excess of the relief threshold of LKR 3 M, after taking into account the total of other sources of assessable income (i.e., where the total of assessable income from other sources does not exceed LKR 3 M)

Partnership tax

Under the existing provision of the IRA, a partnership is not liable for income tax. The partnership merely acted as a WHA.

Partnerships were liable for income tax with effect from 1 January 2020. Pursuant to this amendment, the taxable income of the partnership exceeding LKR 1 M per annum will be subject to 6 percent partnership tax.

Consequently, the WHT on partners' share of profits, which is applicable under the existing provisions of the IRA, was removed with effect from 1 January 2020.

Provision has been made to specifically impose responsibility on each partner to perform any duty or obligation imposed by the IRA on the partnership in relation to its income tax payable.

Tax credit

In calculating the partner's amount of current instalment of tax payable, provision has been made to allow a tax credit in respect of the tax paid by the partnership effective from 1 April 2020, provided that the partnership has duly paid the applicable installment.

However, effective 1 January 2020, a refund is not allowed to the partner in the event that the attributed share of the income tax paid by the partnership is in excess of the liability of that partner. The excess could be carried forward to the next succeeding year and deducted as a tax credit in that year.

13. Advance Income Tax (AIT)

With the abolition of WHT on most on the investment returns and payments to resident persons, a mechanism of AIT has been introduced effective from 1 April 2020.

Under the AIT scheme, a resident tax payer can request the WHA to deduct Advance Income Tax from the payment of dividend, interest, discount, charge, natural resource payment, rent, royalty, premium, or similar periodic payment that has a source in Sri Lanka. WHA will deduct AIT per the instructions issued by the commissioner general.

14. Capital gains tax return

Under the existing provisions, capital gains tax return must be filed within month of the realisation of investment assets.

Revision has been made to the due date for filing the capital gains tax return effective from 1 April 2021, where capital gain return on the realisation of investments assets (i.e., capital gain transactions) must be filed within 30 days after the **end of the relevant calendar month in which the transactions took place**.

Accordingly, investments assets realised within a month can be included under one capital gains tax return. This removes the requirement of filing separate capital gains tax returns, for each realisation of investments assets occurring within a month.

A capital gains tax return filed by a person who is required to file a return of income for the same year of assessment will no longer be considered a self-assessment.

15. Administrative provisions

Tax Identification Number (TIN)

Effective from 1 April 2021, it will be required to mandatorily mention the Tax Identification Number (TIN) in tax-related source documents or underlying documents of the taxpayer, in addition to the existing requirement to use TIN in correspondence relating to the administration of the IRA.

Filing of returns via the electronic tax system

From 1 April 2021, the filing of tax returns online (using a computer system or mobile electronic device) will be mandated for **companies incorporated in or outside Sri Lanka and public corporations**.

16. Financial statements

Effective from 1 April 2021, any person engaged in business or investment activity, where the income tax payable is calculated by applying different tax rates for such part of taxable income, must prepare financial statements that separately identify gains and profit taxable at different rates.

Consequently, provision has been made where different tax rates are applicable to different activities and sources of income, to treat each activity and source as a distinct business and source.

17. Tax returns

Signing of tax returns

Effective from 1 April 2021, everyone including an approved accountant who prepared a return or part of a return for a payment, will be mandated to certify the extent of his/her involvement in the preparation of such return and specify the documents examined and the information relied on

This certification must be submitted along with the return and is deemed to be a part and parcel of the return.

Information returns and annual statements

Return of information and annual statements required to be filed by a person related to matters other than the person's own tax liability, which was earlier only in respect of returns, has been extended to cover assessments, objections, and appeals as well. This amendment is effective from 1 April 2018.

18. Administrative review

Annual statement

Effective from 1 April 2018, where the request for administrative review is an objection against an assessment made, in the absence of a return or annual statement required to be furnished, the request must be sent together with a duly filled annual statement or duly filled return.

The provision for the annual statement in such instance was included through the Amendment Act.

Time period for assessments

The time bar applicable for assessment will not apply for an amended assessment or an additional assessment issued pursuant to a decision under administrative review. This amendment is effective from 1 April 2021.

Appeal to the tax appeals commission

The time period to make an appeal under the existing provisions of the IRA, where the decision of the commissioner general has not been received, is only on the lapse of 90 days from the request for the administrative review being made.

This time period is extended to seven months from the request for the administrative review being made, effective from 1 April 2021.

Accordingly, a taxpayer who is unsatisfied **with the decision given on an administrative review of an assessment** may appeal to the tax appeals commission by filing the petition of appeal in writing within 30 days from the date:

- a) **Of receipt of the decision** of the commissioner general or
- b) **Where seven months have lapsed since the request for administrative review** was made under section 139

19. Interest on refunds/late payments and under payments

- Provisions regarding the interest required to be paid on any refund claim of the taxpayer has been amended as below.

Interest on refunds	Previous provision	Amended provision
Time period for calculating interest on a refund claim	Interest on the refund was calculated from the later of: (a) due date or (b) date the tax was paid until the date on which the refundable amount is paid.	Interest on the refunds is calculated from the date of filing the refund claim to the date on which the refundable amount is paid. This amendment is effective from 1 April 2018.
Increase of the grace period for payment of interest on a refund claim	Previously, no interest was required to be paid to the taxpayer, where the refund is paid within 60 days of filing the claim for refund	No interest is required to be paid to the taxpayer, where the refund is paid within 6 months of filing the claim for refund This amendment is effective from 1 April 2021.

- The interest rate of 1 ½ percent on underpayment, late payments of tax, and ½ percent on refund claims, applicable per month or part month, is **computed** monthly. This is effective from 1 April 2018.

This amendment has been made for the purpose of providing clarity on interest calculation. The previous provisions stated that interest was applicable per month or part month, **compounded** monthly.

20. Punitive provisions in relation to auditors, tax practitioners, tax advisors, or approved accountants

This is a new provision introduced under the Amendment Act.

Under this provision, any person who fraudulently (a) prepares any document of information; or (b) certifies a document, to be furnished to the commissioner general of Inland Revenue, is considered to have committed an offence under the IRA and on conviction after the summary trial before a magistrate, will be liable to one the following:

- Fine not exceeding LKR 1 M or
- Imprisonment of either description for a term not exceeding six months

21. Amendment to interpretations under the IRA

Amendments have been made to the interpretations provided under the IRA.

	Previous interpretation	Amended interpretation	Effective date
Substitution of the existing definition “agricultural business”	“Agricultural business” means the business of producing agricultural, horticultural, or any animal produce. It includes an undertaking for the purpose of rearing livestock or poultry.	“ Agricultural business ” means the business of agro farming or agro processing, but excludes farming of, or processing of liquor or tobacco produces or products, as the case may be.	1 April 2019
New definitions introduced in relation to agriculture	Not applicable	<p>“Agro farming” means</p> <p>(a) Tillage of the soil and cultivation of land with plants of any description, cultivation in green house, bee-keeping, rearing of fish, shrimp farming or animal husbandry, poultry farms, hatchery, veterinary, or artificial insemination services</p> <p>(b) Cleaning, sizing, sorting, grading, cutting, or chilling of any produce produced out of any activity referred to in paragraph (a) by any person who is engaged in any such activity, in preparation of such produce for the market but excludes agro or food processing.</p> <p>“Agro processing” means the processing of any locally produced agricultural, fishing, or animal product. It includes an undertaking for dehydrating, milling, packaging, and canning for the purpose of changing form, contour, or physical appearance of such a product in preparation for the market but excludes an undertaking of deep-sea fishing or manufacturing.</p>	1 April 2019
Amendment to definition of “entertainment”	“Entertainment” means the provision to any person of food, beverages, tobacco , accommodation, amusement, recreation, or hospitality of any kind.	“Entertainment” means the provision to any person of liquor, tobacco , accommodation, amusement, recreation, or hospitality of any kind.	1 April 2021
New definition introduced for “manufacture”	Not applicable	“ Manufacture ” means a change in a non-living physical object, article, or thing	1 January 2020

Previous interpretation	Amended interpretation	Effective date
	<p>(a) Resulting in transformation of such object, article, or thing into a new and distinct object, article or thing having a different name, character, or use.</p> <p>(b) Bringing into existence of a new and distinct object, article, or thing with a different chemical composition or integral structure.</p>	
<p>Amendment to the definition of SME</p>	<p>Under the previous definition, if the person had an associate that was an entity, it did not meet that criteria to qualify as an SME.</p> <p>The other conditions below continue to apply as in the previous definition:</p> <ul style="list-style-type: none"> • Person who conducts business solely in Sri Lanka other than an individual who is engaged in providing professional services individually or in partnership being an individual who is professionally qualified. • Person's annual gross turnover is less than LKR 500 M. 	<p>1 April 2020</p>
<p>Expansion of the definition of "specified undertaking"</p>	<p>These are additions to "specified undertakings" defined under the previous provisions.</p> <p>The following have been added to the definition of a "specified undertaking."</p> <ul style="list-style-type: none"> • Sale of goods manufactured in Sri Lanka by an export-oriented company. This has entered into an agreement with the Board of Investment of Sri Lanka under section 17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978, to: <ul style="list-style-type: none"> (i) Any company that has entered into an agreement with the Board of Investment of Sri Lanka under section 17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978 that includes a company enjoying tax holidays under the Strategic Development Projects Act, No. 14 of 2008 and which is permitted to import project-related goods or raw materials on a duty-free basis under the 	<p>1 April 2021</p>

Previous interpretation	Amended interpretation	Effective date	
	<p>provisions of such agreement, during the project implementation period; or</p> <p>(ii) Any person eligible to import specific goods on a duty-free basis under any government authority</p> <p>but, up to the quantity approved by the Board of Investment of Sri Lanka as import replacement within the three years period commencing on 1 April 2021.</p> <ul style="list-style-type: none">• Bunkering services provided for the supply of marine fuel, including the supply of marine fuel to local bunker suppliers within a specified port premises.		
New interpretation for “Sri Lankan PE”	<p>The previous definition was as below.</p> <p>“Sri Lankan PE” means a place in Sri Lanka where a non-resident person carries on business or that is at the disposal of the person for that purpose. It includes the following:</p> <p>(a) A place in Sri Lanka where a person has, or is using or is installing substantial equipment or substantial machinery.</p> <p>(b) A place in Sri Lanka where a person is engaged in a construction, assembly, or installation project for 90 days or more, including a place where a person is conducting supervisory activities in relation to such a project.</p> <p>(c) Provision of services in Sri Lanka, but only if activities of that nature continues (for the same or a connected project) for a period of 183 days or more in any 12-month period.</p>	<p>The existing definition has been replaced with the following.</p> <p>“Sri Lankan permanent establishment” means any business connection or fixed place of business through which the business of the enterprise is wholly or partly carried out, irrespective of the number of days of such business being carried out in Sri Lanka.</p>	1 April 2018

	Previous interpretation	Amended interpretation	Effective date
	<p>(d) A place in Sri Lanka where an agent performs any function on behalf of the business of a non-resident person –</p> <p>(i) Including, in case of an insurance business, the collection of premiums or insurance of risks situated in Sri Lanka; but</p> <p>(ii) Excluding a case involving a general agent of independent status acting in the ordinary course of business as such;</p>		
Amendment to definition of “tax return”	<p>“Tax return” means a return, including an information return, that a person is required to file with the Department, in which information about that person’s or some other person’s possible tax liability is provided;</p>	<p>The term “annual statement” has been added to the definition of “tax return”. Accordingly, the term “tax return” reads as follows.</p> <p>“Tax return” means a return or annual statement, including an information return, that a person is required to file with the department, in which information about that person’s or some other person’s possible tax liability is provided.</p>	1 April 2018
Definition introduced for “Tertiary and Vocational Education Commission”	Not applicable	<p>“Tertiary and Vocational Education Commission” means the Tertiary and Vocational Education Commission established under the Tertiary and Vocational Education Act, No 20. of 1990</p>	1 April 2021

22. Tax rates

Resident and non-resident individuals

The tax rates applicable to residents and non-residents have been amended as below, with effect from 01 January 2020.

Taxable income for a year of assessment	Tax payable
Next LKR 3 million	6 percent
Next LKR 3 million	12 percent
Balance	18 percent

Under the previous provisions, tax rates were applicable at progressive rates from 4 percent to 24 percent based on taxable income slabs of LKR 600,000.

Terminal benefits

The income tax rate has been revised on terminal benefits (i.e., amounts received in commutation of a pension, retiring gratuity, compensation for loss of office paid under a uniform scheme, and ETF) with effect from 01 January 2020.

The revised rates below came into effect from 1 January 2020.

Total income from employment for a year of assessment	Tax payable
First LKR 10 million	Exempt
Next LKR 10 million	6 percent
Balance	12 percent

The distinction based on the period of employment (i.e., more or less than 20 years), which applied previously, has been removed.

Individual's business income

Previous provision	Amended provision	Effective date
Tax rate of 40% was applicable on income from a business consisting of betting and gaming, liquor or tobacco.	The tax rate of 40% applies for income from a business consisting of betting and gaming, manufacture and sale, or import and sale of any liquor or tobacco product.	1 April 2019
A maximum rate was not provided for an individual's gains and profits from the consideration received in respect of gems and jewellery and on amounts received on the supply of electricity to national grid generated by using renewable energy resources by any individual.	<p>Subject to the progressive tax rates applicable to an individual ranging from 6% to 18%, a maximum rate of 14% will apply for an individual's gains and profits from the following:</p> <ul style="list-style-type: none"> Consideration received in respect of gems and jewellery Amounts received on the supply of electricity to the national grid generated by using renewable energy resources by any individual 	1 April 2021

Partnership

The taxation of a partnership is amended as below with effect from 1 January 2020.

Taxable income for a year of assessment	Tax payable
First LKR 1 million	0 percent
Exceeding LKR 1 million	6 percent on the excess of LKR 1 million
Gains on realisation of investment assets	10 percent

Trust

The tax rate applicable for a trust reduced from 24 percent to 18 percent with effect from 1 January 2020.

Companies

The tax rate applicable for companies has been amended as below. Accordingly, the predominant rule will not apply for determination of the concessionary tax rates provided before 1 January 2020.

Industry	Corporate income tax rate	Effective date
Standard rate for companies	24 percent	1 January 2020
a) SMEs	14 percent	
b) Sale of goods or merchandise, including export of goods (where the payment for such sale is received in foreign currency and remitted through a bank to Sri Lanka)		
c) Specified undertaking*		
d) Educational services		
e) Promotion of tourism		
f) Construction services		
g) Agro processing*		
<i>Income tax payable is reduced by 25 percent for the period of five years of assessment commencing on 1 April 2021 where a person uses agro farming produce for his/her agro processing or manufacturing business activity in Sri Lanka.</i>		
<i>The reduction is in respect of such agro processing or manufacturing business activity that corresponds to the proportion of the farming produce produced by him/her, to the total farming produce used in such agro processing or manufacturing.</i>		
h) Healthcare services		
i) Dividends received from a resident company		
j) BOI export company on the consideration received from the supply of health protective equipment and similar products to the Ministry of Health, Department of Health Services, Sri Lanka Army, Sri Lanka Navy, Sri Lanka Airforce, Sri Lanka Police, and the COVID centre		
k) k) Any company that lists its shares on or after 1 January 2021 but before 31 December 2021, in the Colombo Stock Exchange licensed by the Securities and Exchange Commission of Sri Lanka (even though a higher rate of income tax is applicable as provided under the IRA or under any other written law)	14 percent	For three years of assessment commencing from 1 April 2022
l) Gems and jewellery	14 percent	1 April 2021

Industry	Corporate income tax rate	Effective date
Gains and profits from the supply of electricity to national grid generated using renewable energy resources by a company	14 percent	1 January 2020
Manufacturing* (subject to a), b), c), j), or k) above)	18 percent	
Betting and gaming	40 percent	
Manufacture and sale or import and sale of any liquor or tobacco products	40 percent	

* Definition of manufacture amended under Section 195 of the IRA (refer para 21 of the tax alert)

However, the above income tax rates will be further reduced on fulfilment of certain conditions.

Description	Rate change	Effective date
1. Aggregate income tax payable by any company, including tax calculated according to the provisions of BOI agreements entered into under Section 17 of the BOI Law (other than on gains from the realisation of investment assets), which lists its shares on or after 1 January 2021 but before 31 December 2021 on the Colombo Stock Exchange licensed by the Securities and Exchange Commission of Sri Lanka	Reduced by 50%	1 April 2021
2. Income tax payable on dividends by multinational companies, subject to the fulfilment of either of the following two conditions: <ul style="list-style-type: none"> • Increase in exports (other than specified undertakings) by 30% in the year of assessment commencing from 1 April 2021 (i.e., 2021/22) compared with the immediately preceding year of assessment (i.e., 2020/21) <p>or</p> <ul style="list-style-type: none"> • Increase in exports (other than specified undertakings) by 50% in the year of assessment commencing from 1 April 2022 (i.e., 2022/23); and maintaining such a status in the subsequent year of assessment, compared with the year of assessment 2020/2021. 	<ul style="list-style-type: none"> • Reduced by 25% – In the first year of assessment • Reduced by 50% – In the two succeeding years of assessment 	Applicable for the year of assessment commencing from 1 April 2021 and the two succeeding years of assessment

Unit trusts and mutual funds

The tax rate applicable for unit trusts and mutual funds, reduced under the Amendment Act from 28 percent to 24 percent with effect from 1 January 2020.

Non-governmental organisations

The tax rate applicable for non-governmental organisations that includes the tax on the deemed profit on amounts received by way of grant, donation, or contributions, is reduced from 28 percent to 24 percent with effect from 1 January 2020.

23. Investment incentives

Improvements on leasehold lands

From 1 April 2021, any building, structure, or similar work of a permanent nature constructed or made in a leasehold land by the person who made the investment to be considered as a depreciable asset for the purpose of granting enhanced capital allowances.

Exemption on employment income for expatriates as an investment incentive

An exemption is granted on employment income as an investment incentive, with effect from 1 April 2021.

Employment income of expatriate employees are exempt subject to the following condition.

- The company has incurred more than US\$ 250 million on depreciable assets (other than intangible assets) in Sri Lanka.

Exemption

- During the period in which that payment is made out of profits sheltered by enhanced capital allowances under the Second Schedule of the IRA or
- For five years from the commencement of commercial operations whichever is higher.

However, the exemption is limited to only 20 expatriate employees.

24. Exemptions

Strategic development projects

Provision is made to enable the granting of exemptions for any projects approved under the Strategic Development Projects Act, No. 14 of 2008, with effect from 1 April 2018.

Income tax

New exemptions	Effective date
<p>1 Amounts paid to an employee at the time of retirement, from a regulated provident fund.</p> <p>This is in addition to the existing exemption on any pension fund, ETF (subject to conditions) and payments made from a provident fund approved by the commissioner general</p>	1 April 2018
<p>2 Gains made by a person from the realisation of land or building that is sold, exchanged, or transferred to a Sri Lanka Real Estate Investment Trust (SLREIT) listed on the Colombo Stock Exchange and licensed by the Securities and Exchange Commission of Sri Lanka.</p>	1 April 2021

New exemptions	Effective date
3 Interest accruing to or derived by any person outside Sri Lanka, on any loan granted to any person in Sri Lanka or to the government of Sri Lanka	1 April 2018
4 Interest income accruing to or derived by any person on money lying to his/her credit in any foreign currency accounts opened by him/her or on his/her behalf, in any commercial or specialised bank in Sri Lanka, with the approval of the Central Bank of Sri Lanka	1 January 2020
5 Interest income accruing to or derived by any person from a term deposit account titled as “ special deposit account ” opened and maintained with an authorised dealer in Sri Lanka as prescribed by regulations made by the minister under section 29 read with section 7 of the Foreign Exchange Act, No. 12 of 2017 (excluding the subsequently renewed accounts), either in any designated foreign currency or in LKR.	8 April 2020
6 Interest accruing to or derived by any welfare society “Welfare society” means a fund or a society that has been set up or formed for the welfare of its members or their respective families and contributions are made by its members, including benevolent fund that promotes members’ savings, but other than any company incorporated or registered under any law in force in Sri Lanka or elsewhere and a partnership.	1 April 2021
7 Interest accruing to or derived by any multinational company from deposits opened and maintained in foreign currency in any domestic bank, if such deposit is maintained to cover its import expenditure for that year of assessment. “Multi-national company” means a company that is part of a group of associated companies, with business establishments in two or more countries.	1 April 2021
8 Any sum received by <ul style="list-style-type: none"> • Any public corporation out of the funds voted by the parliament from the consolidated fund or out of any loan arranged through the government 	1 April 2018
9 Any income earned by <ul style="list-style-type: none"> • 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 issued by or on behalf of the Government of Sri Lanka • Any person by way of interest or discount paid or allowed, on any sovereign bond denominated in foreign currency, including Sri Lanka Development Bonds, issued by or on behalf of the Government of Sri Lanka 	1 April 2018
10 A gain from the realisation of Sri Lanka international sovereign bonds issued by or on behalf of the Government of Sri Lanka and received or derived by a commercial bank or authorised dealer who made an aggregate investment not less than US\$ 100 million in such bonds.	1 April 2021

New exemptions	Effective date
11 Interest or discount accrued or derived by any Samurdhi community-based banks established under the Department of Samurdhi Development from security or treasury bonds under the Registered Stocks and Securities Ordinance (Chapter 420) or treasury bills under the Local Treasury Bills Ordinance (Chapter 417).	1 April 2021
12 Dividend paid by a resident company to a member to the extent that such dividend payment is attributable to, or derived from, gains and profits from dividend received by that resident company.	1 January 2020
<p>“Gains and profits from dividend” means the dividend received by that company after the deduction of expenses or losses, if any, subject to the provisions of this IRA and income tax paid or payable on such dividend received by that company.</p>	
13 Dividend paid by a resident company to a member who is a non-resident person	1 January 2020
14 Dividend paid by a resident company engaged in any one or more of the following businesses, under PART IV of the Finance Act No. 12 of 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). <ul style="list-style-type: none"> (i) Entrepot trade involving import, minor processing, and re-export (ii) Offshore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing them into Sri Lanka (iii) Providing front-end services to clients abroad (iv) Headquarters operations of leading buyers for management of financial supply chain and billing operations (v) Logistics services, including bonded warehouse or multi-country consolidation in Sri Lanka 	1 January 2020
15 Dividends from and gains on the realisation of shares in a non-resident company, derived by any person with respect to a substantial participation in the non-resident company.	1 April 2018
<p>Before the amendment, this exemption was available only to such dividend received by a resident company.</p>	
<p>“Substantial participation” means</p> <ul style="list-style-type: none"> i. Holding 10 percent or more of the value of shares in the company, excluding redeemable shares, together with ii. (ii) control, either directly or indirectly, of 10 percent or more of the voting power in the company 	
16 Dividends and gains on the realisation of units or amounts derived as gains from the realisation of capital assets of a business or investment by a unit holder, from REITs listed on the Colombo Stock Exchange and licensed by the Securities and Exchange Commission of Sri Lanka	1 April 2021
17 Any amount derived by any non-resident person as any payment for aircraft, software licences, or as for other related services from Sri Lankan Airlines Limited	1 April 2018

New exemptions	Effective date
<p>18 Gains and profits earned or derived by any person from the sale of produce from agro farming of such person within the period of five years of assessment commencing from 1 April 2019.</p> <p>Where an undertaking consisting of the production of agro farming, produces and uses such produce for agro processing or manufacture of any product, such produce shall be deemed to have been sold to the agro processor or manufacturer at the market price prevailing at the time of the deemed sale. Gains and profits computed on the deemed sale is considered as exempt gains and profits within this period.</p>	1 April 2019
<p>19 Gains and profits earned or derived by any person from providing information technology and enabled services on or after as may be prescribed.</p>	1 January 2020
<p>20 Gains and profits earned or derived by any person from</p> <ul style="list-style-type: none"> • Any service rendered in or outside Sri Lanka to any person to be used outside Sri Lanka, where the payment for such services is received in foreign currency and remitted through a bank to Sri Lanka • From any foreign source where such gains and profits are earned or derived in foreign currency and remitted through a bank to Sri Lanka 	1 January 2020
<p>21 Gains and profits earned or derived by any person from any vocational education programmes of any Vocational Education Institution, which is standardised under Technical and Vocational Education and Training concept (TVET concept) and regulated by the Tertiary and Vocational Education Commission, for a period of five years commencing from 1 April 2021, subject to the following condition.</p> <ul style="list-style-type: none"> • The institution should have doubled its student intake of vocational education programmes for such year of assessment compared with the student intake of such programmes in the year of assessment immediately preceding that year of assessment. <p>Any such institution that doubled the student intake as provided in the first year and maintained the student numbers as of the first year for the succeeding period of four years, shall be deemed as an institution that fulfilled the requirement for exemption in each year of such period of four years.</p>	1 April 2021
<p>22 Gains and profits earned or derived by any person from any business of export of gold, gems, or jewellery or from the business of cutting and polishing gems that 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.</p>	1 April 2021
<p>23 Any amount derived by any non-resident person from laboratory services or standards certification services.</p>	1 January 2020
<p>24 Any amount derived by any religious institution, which is registered with the ministry in charge of the subject of religious affairs, by way of grants or donations.</p>	1 January 2020
<p>25 Gains and profits received or derived from business (other than any gains from the realisation of capital assets and liabilities of the business as calculated under Chapter IV of the IRA) by a person from any of the following new undertakings (which is not formed by the splitting-up or re-construction of an existing undertaking) commenced on or after 1 April 2021.</p>	As provided for the respective undertakings.

New exemptions	Effective date
<p>a) A 10-year tax exemption period for an undertaking that:</p> <ul style="list-style-type: none"> Sells construction materials recycled in a selected separate site established in Sri Lanka to recycle materials that were already used in the construction industry. If recycled materials are used by the same person for construction services, this exemption can be claimed by deeming such materials as having been sold to the construction service business at a market price. 	<p>Tax exemption period provided from a) to e) shall be the earlier of:</p> <ul style="list-style-type: none"> The year of assessment in which the undertaking commences to make profits (assessable income) from transactions entered in that year of assessment or From the commencement of the year of assessment immediately succeeding the year of assessment in which the undertaking completes a period of two years, reckoned from the date on which the undertaking commences to carry on commercial operations.
<p>b) A 5 year tax exemption period for any business commenced on or after 1 April 2021 by an individual:</p> <ul style="list-style-type: none"> After successful completion of vocational education from any institution that is standardised under the TVET concept and regulated by the Tertiary and Vocational Education Commission. 	
<p>c) A 7 year tax exemption period for an undertaking commenced by a resident person:</p> <ul style="list-style-type: none"> For manufacturing boats or ships in Sri Lanka and any gains and profits received or derived from the supply of such boats or ships. 	
<p>d) A 7 year tax exemption period for any “renewable energy project”:</p> <ul style="list-style-type: none"> Established with a capacity to generate not less than one hundred megawatts of solar or wind power and that supplies such power to the national grid. 	
<p>e) A 5 year tax exemption period for any undertaking commenced on or after 1 January 2021 by any resident person:</p> <ul style="list-style-type: none"> Who constructs and installs communication towers and related appliances using local labour and local raw materials in Sri Lanka; or Provides required technical services for such construction or installation 	
<p>f) Any undertaking to let bonded warehouses or warehouses related to the offshore business in ports at Colombo or Hambantota, if such a person has invested in such undertaking on or after 1 April 2021.</p>	

25. Capital allowances, balancing allowances, and assessable charges

	Effective date
Capital allowances are to be granted for milking machines with latest technology, used to manufacture local liquid milk-related products over a period of two years	1 April 2021
Motorcycle classified as eligible to claim capital allowance	1 April 2018

	Effective date
Where a depreciable asset that was subject to deduction of the enhanced capital allowances (calculated as investment incentives or temporary concessions), is realised, an assessable charge included in calculating the person's income for the year shall be equal to:	1 April 2021
<ul style="list-style-type: none"> ▪ The consideration received by the person during the year of assessment for such asset Or ▪ No balancing allowance shall be granted to the person for the year for such asset 	

26. Qualifying payments and reliefs

New/amended qualifying payments and reliefs	Effective date
1 Payments made to the consolidated fund or president's fund by any public corporation	1 April 2019
2 Contribution made by a resident individual in money or otherwise to establish a shop for a female individual who is from a Samurdhi beneficiary family as recommended and confirmed by the Department of Samurdhi Development	1 April 2021
3 Expenditure incurred by any financial institution as cost of acquisition or merger of any other financial institution , where such cost is ascertained by considering the facts on a case-by-case basis and as confirmed by the Central Bank of Sri Lanka.	1 April 2021

Total deductible expenditure shall be **apportioned in equal amounts over a period of three years of assessment** and deductible from the assessable income of that financial institution in each such year of assessment, commencing from the year of assessment where the expenditure is incurred.

Any amount that was not deducted during the three-year period, by reason of the total assessable income in a year not exceeding the permitted deduction amount, shall be deducted in the year of assessment immediately after the three-year period and subsequent years of assessment.

4 Expenditure incurred	1 April 2021
<ul style="list-style-type: none"> (i) In the production of a film at a cost (including promotional expenditure of such film) of not less than LKR 5 million (ii) In the construction and equipping of a new cinema at a cost not exceeding LKR 25 million (iii) In the upgrading of a cinema at a cost not exceeding LKR 10 million 	

However, the deduction is restricted to one third of the taxable income of the year, and any un-deducted amount in the current year may be carried forward and deducted in the succeeding years, subject to the same restriction.

New/amended qualifying payments and reliefs	Effective date
For the purpose of this subparagraph-	
<i>“film” means any audio-visual presentation of the moving image produced on any form or format whatsoever and which is intended primarily to be exhibited by projection on a screen in a cinema</i>	
Further, the expenditure on construction and equipping or upgrading a cinema must be certified by the National Film Corporation of Sri Lanka established by the National Film Corporation of Sri Lanka Act, No. 47 of 1971 as being equipped with digital technology, Digital Theatre Systems, and Dolby Sound Systems.	
5 Personal relief of LKR 3 million per annum for resident individuals and non-residents who are citizens.	1 January 2020
Accordingly, the previous relief of LKR 500,00 on assessable income and LKR 700,000 relief on employment income is no longer applicable.	
6 Removal of the LKR 1.5 million exemption on interest income for senior citizens	1 January 2020
7 Removal of the LKR 15 million exemption on foreign currency income received by a resident individual or partner of a partnership, in respect of services rendered in or outside Sri Lanka, to any person to be used outside Sri Lanka	1 January 2020
8 In case of a resident individual , the following deductions are permitted in calculating personal income tax (subject to a maximum of LKR 1.2 million for a year of assessment) (i) Health expenditure, including contributions to medical insurance (ii) Vocational education or other educational expenditure incurred locally by such individual or on behalf of such individual’s children (iii) Interest paid on housing loans (iv) Contributions made to any local pension scheme, other than for a scheme under the employer or on behalf of the employer, by an employee (v) Expenditure incurred for the purchase of shares or any other financial instrument listed on the Colombo Stock Exchange and licensed by the Securities and Exchange Commission of Sri Lanka or treasury bonds under the Registered Stocks and Securities Ordinance (Chapter 420) or treasury bills under the Local Treasury Bills Ordinance (Chapter 417)	1 January 2020
9 Relief to a resident individual who has acquired solar panels to fix on his premises and connected to the national grid for LKR 600,000 for each year of assessment , up to the total expenditure on such solar panels or up to the amounts paid to a bank in respect of any loan obtained to acquire such solar panels.	1 April 2021

27. Temporary concessions

The validity period of the temporary concessions under the sixth schedule of the IRA (other than what has been expressly provided for), has been extended from the existing five years up to seven years starting from 1 April 2018.

Enhanced capital allowances

Temporary concessions on enhanced capital allowances detailed below, was limited to three years from the commencement of the IRA (i.e., commencing from 1 April 2018 and ending on 31 March 2021).

Provision has been made to extend this time period up to 6 years from the commencement of the IRA (i.e., ending only on 31 March 2024).

Qualifying criteria	Enhanced depreciation allowance
<ul style="list-style-type: none"> Depreciable assets are used in Sri Lanka (excluding Northern Province) Up to US\$ 3 M has been incurred on depreciable assets during the year 	100%
<ul style="list-style-type: none"> Depreciable assets are used in the Northern Province Up to US\$ 3 M has been incurred on depreciable assets during the year 	200%

Depreciable assets for the purpose of temporary enhancement allowances means:

- Computers and data handing equipment together with peripheral devices
- Buildings, structures, and similar works of permanent nature
- Plant or machinery used to improve business process or productivity, and fixed to the business premises

Research and development expenditure

Under the IRA, research and development expenses irrespective of whether they are of capital nature or not, (excluding the expense incurred that are otherwise included in the cost of an asset) are permitted as a deduction in calculating a person's income from business.

On the enactment of the IRA, a temporary concession was granted as an additional deduction of 100 percent on research and development expenditure, for a period of three years after the commencement of the IRA (i.e., commencing from 1 April 2018 and ending on 31 March 2021).

The concession granted as an additional deduction is extended for further two years (i.e., up to 31 March 2023).

Interest on late payments

Provision has been made to remove the interest rate of 1.5 percent per month applicable on late payments, for any payment due and payable during the period from 1 March 2020 to 30 September 2020 under the IRA.

28. Guidelines issued by the Commissioner General

Provision has been made to validate guidelines issued by the commissioner general that was necessitated due to the administrative application of the government proposals covering the period from 1 April 2019 to 31 March 2020.

Accordingly, the commissioner general has been given authority to issue guidelines to calculate income tax payable for the year of assessment ended 31 March 2020, specifying:

- The computation of assessable income (or losses) from each source
- Deductions of qualifying payments and reliefs
- Computation of taxable income
- Applicable tax rates and tax credits in which to apply the pro-rata basis or actual basis only for the required circumstances as the case may be, for over the two periods of the year of assessment (i.e., from 1 April 2019 to 31 December 2019 and from 1 January 2020 to 31 March 2020)

29. Tax relief measures to facilitate post COVID–19 economic recovery

Measures for SMEs

- 1 The commissioner general will write-off any income tax arrears payable by any SMEs, if such arrears have arisen due to any assessment made (other than the assessments made for tax payments per the returns), up to the year of assessment ended 31 March 2019 and which is outstanding, as on 26 June 2020 where:
 - (a) The assessment was made per the provisions of the IRA or the provisions of the Inland Revenue Act, No. 10 of 2006 or the provisions of the Inland Revenue Act, No. 38 of 2000 or the provisions of the Inland Revenue Act, No. 28 of 1979 but
 - (b) Subject to the deduction of any refunds duly claimed by such person as provided in any tax act administered by the commissioner general from such income tax arrears.
- 2 An amended income tax assessment will not be issued to an SME (subject to an application being made by the tax payer to amend self-assessment) for the year of assessment ended on 31 March 2020 subject to the assistant commissioner being satisfied that:
 - There has been no fraud or willful neglect involved in the disclosure of income or any deduction or relief by such SME and
 - The tax declared in the return has been duly paid.
- 3 The commissioner general will not impose any penalty or initiate criminal proceedings under Chapter XVIII of the IRA against a person who before 30 June 2021:
 - a) Files his return of income for the year of assessment commencing on 1 April 2019 (i.e., 2019/2020) and
 - b) Makes the payment of tax payable on assessment (i.e., the balance tax payable within six months from the end of the year of assessment) in respect of the year of assessment commencing 1 April 2019 (i.e., 2019/2020)



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