Inland Revenue Act, No. 10 of 2006

[Incorporating Amendments up to 30th April 2015]

Department of Inland Revenue

Consolidated Text of the Inland Revenue Act No. 10 of 2006

The consolidated text of the Inland Revenue Act No.10 of 2006 incorporates all amendments up to 2015, and set out the law as it applies for the period commencing from April 1, 2006.

This is not a statutory consolidation and is meant to serve as a convenient reference only. Therefore, the original position of the Act is kept as it is and the subsequent amendments with relevant provisions of the Amendment Acts (with the due dates) were included as new provisions, for easy reference.

27th June, 2016

Inland Revenue Department

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AN ACT TO PROVIDE FOR THE IMPOSITION OF INCOME TAX FOR ANY YEAR OF ASSESSMENT COMMENCING ON OR AFTER APRIL 1, 2006

Incorporating

- Inland Revenue (Amendment) Act, No. 10 of 2007 - Certified on 30th March 2007
- Inland Revenue (Amendment) Act, No. 09 of 2008 - Certified on 29th February 2008
- Inland Revenue (Amendment) Act, No. 19 of 2009 - Certified on 31st March 2009
- Inland Revenue (Amendment) Act, No. 22 of 2011 - Certified on 31st March 2011
- Inland Revenue (Amendment) Act, No. 08 of 2012 - Certified on 30th March 2012
- Inland Revenue (Amendment) Act, No. 18 of 2013 - Certified on 24th March2013
- Inland Revenue (Amendment) Act, No. 08 of 2014 - Certified on 24th April 2014
- Inland Revenue (Amendment) Act, No. 09 of 2015 - Certified on 30th October 2015

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 Act, No. 10 of 2006. **Short title**

CHAPTER I

IMPOSITION OF INCOME TAX

2. (1) Income tax shall, subject to the provisions of this Act, be charged at the appropriate rates specified in the First, Second, Third, Fourth and Fifth Schedules to this Act, for every year of assessment commencing on or after April 1, 2006 in respect of the profits and income of every person for that year of assessment– **Imposition of Income tax.**

(*a*) wherever arising, in the case of a person who is resident in Sri Lanka in that year of assessment; and

(*b*) arising in or derived from Sri Lanka, in the case of every other person.

(2) For the purposes of this Act, "profits and income arising in or derived from Sri Lanka" includes all profits and income derived from services rendered in Sri Lanka or from property in Sri Lanka, or from business transacted in Sri Lanka, whether directly or through an agent.

CHAPTER II

INCOME CHARGEABLE WITH TAX

3. For the purpose of this Act, "profits and income" or "profits" or "income" means- Income chargeable with Tax.

(*a*) the profits from any trade, business, profession or vocation for however short a period carried on or exercised;

(*b*) the profits from any employment;

(*c*) the net annual value of any land and improvements thereon occupied by or on behalf of the owner, in so far as it is not so occupied for the purposes of a trade, business, profession or vocation;

(*d*) the net annual value of any land and improvements thereon used rent-free by the occupier, if such net annual value is not taken into account in ascertaining profits and income under paragraphs (*a*), (*b*) or (*c*) of this section, or where the rent paid for such land and improvements is less than the net annual value, the excess of such net annual value over the rent to be deemed in each case the income of the occupier;

(*e*) dividends, interest or discounts;

(*f*) charges or annuities;

(*g*) rents, royalties or premiums;

(*h*) winnings from a lottery, betting or gambling ;

(*i*) in the case of a non -governmental organization, any sum received by such organization by way of grant, donation or contribution or any other manner; and

(*j*) income from any other source whatsoever, not including profits of a casual and non-recurring nature.

4. (1) Profits from any employment include— Profits from employment.

(*a*) (i) any wages, salary, allowance, leave pay, fee, pension, commission, bonus, gratuity, perquisite or such other payment in money which an employee receives in the course of his employment;

(ii) the value of any benefits to the employee or to his spouse, child or parent, including the value of any holiday warrant or passage;

(iii) any payment to any other person for the benefit of the employee or of his spouse, child or parent,

whether received or derived from the employer or others ;

(*b*) the value of any conveyance granted free of any charge by an employer to any employee, or any sum so granted for the purchase of any conveyance;

(*c*) (i) any retiring gratuity or any sum received in commutation of pension;

(ii) any sum paid from a provident fund approved by the Commissioner-General to any employee at the time of his retirement from such fund, other than such part of that sum as represents *his contributions to that fund, where such retirement took place prior to April 1, 2011;* *[S 2, 22 of 2011] [w.e.f.01.04.2011]*

(iii) any sum paid from a regulated provident fund to an employee other than—

(A) such part of that sum as represents his contributions to that fund; and

(B) such part of that sum as represents the contributions made by the employer to that fund prior to April 1, 1968, and the interest which accrued on such contributions, if tax at the rate of fifteen *per centum* has been paid by such employer in respect of such contribution and interest, *[S 2, 22 of 2011] [w.e.f.01.04.2011]*

where such employee retires from the employment prior to April 1, 2011;

(iv) any sum received as compensation for loss of any office or employment;

(v) any sum paid from the Employees Trust Fund established by the Employees' Trust Fund Act, No. 46 of 1980 ;

(*d*) the rental value of any place of residence provided rent-free by the employer or where a place of residence is provided by an employer at a rent less than the rental value, the excess of the rental value over such rent.

For the purpose of this paragraph the rental value of any place of residence shall be–

(i) the net annual value as defined in section 5 with the addition of the rates paid by the owner and of thirty three and one-third *per centum* of such net annual value on account of repairs and other expenses; or

(ii) the gross rent paid for such place of residence, *[S 2, 10 of2007]*

whichever is higher :

Provided that for any year of assessment, any excess of the rental value—

(A) over one hundred and twenty thousand rupees, where the aggregate of the profits referred to in paragraph (*a*) does not exceed one million and eight hundred thousand rupees ; and

(B) over one hundred and eighty thousand rupees, where the aggregate of the profits referred to in paragraph (*a*) exceeds one million and eight hundred thousand rupees,

shall be disregarded ;

(*e*) the value "at the time of its disposal, where such disposal takes place prior to April 1, 2007, of any share of a company received as a benefit from the employer or on behalf of the employer at no cost or at a price which is less than the prevailing market value of such share of that company, whether directly or through a share option scheme.

The value at the time of its disposal of such share shall be the surplus over the cost of acquisition of such share—

(i) in the case of a sale, the sale price or the market value of such share as at the date of sale, whichever is higher;

(ii) in the case of disposal otherwise than by way of sale, the market value of such share as at the date of disposal;

(iii) in the case of an employee ceasing to be in the employment of such employer without selling or disposing of such share, the market value as at the last date of his employment with such employer, which date shall be deemed to be the date of the disposal of such share:

Provided however, in the event of the death of such employee during his period of employment with such employer, the value of such share shall be zero.

For the purpose of this paragraph, the profits from employment arising in accordance with the preceding provisions shall be charged with income tax in the year of assessment during which such sale, disposal or cessation of employment took place, on the basis that such profits form the sole taxable income within the meaning of Chapter VII for that year of assessment, and such tax shall be recovered in accordance with the provisions of Chapter XIV of this Act:

Provided that where the employer was not instrumental in the disposal of such share, such employee shall pay the tax due on such profit from employment in accordance with the provisions of Chapter XIII of this Act.

(2) For the purposes of this section, "the value of any benefit", in relation to an individual who has received, or derived such benefit, means–

(*a*) where the market value of such benefit can be readily ascertained, such market value; or

(*b*) where the market value of such benefit cannot be readily ascertained or such benefit has no market value, the cost that would have to be incurred by any other individual to obtain such benefit:

Provided that the Commissioner-General may, having regard to the market value of that benefit or the cost that would have to be incurred by any other individual to obtain that benefit, by Order published in the Gazette, specify the value to be placed on any benefit, and where a value is so specified in respect of a benefit, such value shall be deemed to be the value of such benefit.

Net annual value of land and improvements thereon or of any place of residence.

5. (1) The net annual value of any land and improvements thereon or of any place of residence shall be determined on the basis of the rent which a tenant might reasonably be expected, taking one year with another, to pay for such land and improvements or for such place of residence (the tenant paying rates and the owner bearing the cost of repairs) subject to a deduction of twenty-five *per centum* on account of repairs and other expenses.

(2) Where the annual value of any land and improvements thereon or of any place of residence has been assessed for rating purposes by a local authority, such annual value less a deduction of twenty-five *per centum* on account of repairs and other expenses, shall be the net annual value, unless in the opinion of the Commissioner-General the assessment made by the local authority does not accurately represent the annual value of such land and improvements or place of residence, in the year for which the net annual value is being determined.

Profits or income arising from rents of land and improvements thereon.

6. The profits or income arising from rents of land and improvements thereon, shall be the gross rent which is receivable and can be recovered after deducting therefrom rates borne by the owner and where the owner undertakes to bear the cost of repairs, twenty-five *per centum* of the balance, but shall, where the rent recoverable in respect of such land and improvements is not restricted by any law for the time being in force, be not less than the net annual value after deducting therefrom any part thereof which is the income of the occupier within the meaning of paragraph (*d*) of section 3, due provision being made for any period in respect of which no rent is receivable or can be recovered.

CHAPTER III

EXEMPTION FROM INCOME TAX

7. There shall be exempt from income tax—

Exemptions from income tax of certain persons (other than individuals) on the whole or any part of their profits and income.

(*a*) the profits and income of—

(i) the World Tourism Organization;

(ii) the United Nations Organization, including the net annual value of any land and improvements thereon in Sri Lanka owned by and occupied by or on behalf of the Organization;

(iii) the International Development Association;

(iv) the Asian Development Bank;

(v) the International Finance Corporation;

(vi) the International Bank for Reconstruction and Development or any other international or foreign organization approved by the Minister, being profits and income attributable to the interest and other charges on any loan granted to the Development Finance Corporation;

(vii) the International Irrigation Management Institute;

(viii) the Trust Fund set up with European Economic Community Funds for the benefit of the settlers in–

(i) Zones 2 and 3 of System B area ; and

(ii) System G area ;

demarcated and administered by the Mahaweli Authority of Sri Lanka, established by the Mahaweli Authority Act, No. 23 of 1979;

(ix) the International Committee of the Red Cross;

(x) the Overseas Private Investment Corporation of the United States of America;

(xi) the Overseas Economic Co-operation Fund of Japan;

(xii) the World Conservation Union;

(xiii) the Commonwealth Development Corporation;

(xiv) the India - Sri Lanka Foundation incorporated under the Companies Act, No. 17 of 1982;

(xv) the European Investment Bank;

(xvi) the Nordic Development Fund established pursuant to the treaty entered between the Governments of Denmark, Finland, Iceland, Norway and Sweden on November 2, 1988 ;

(xvii) the Nordic Investment Bank ;

(*b*) Profits and income, other than profits and income from dividends or interest of any person being –

(i). the Incorporated Council of Legal Education, established by Council of Legal Education Act, (Chapter 276) ;

(ii). the Institute of Charted Accountants of Sri Lanka, established by the Institute of Chartered Accountants of Sri Lanka Act, No. 23 of 1959 ;

(iii). the Sri Lanka Tea Board, established by the Sri Lanka Tea Board Law, No. 14 of 1975;

(iv). the Ceylon National Library Services Board, established by the Ceylon National Library Services Board Act, No. 17 of 1970 ;

(v). any University which is established or deemed to be established under the Universities Act, No. 16 of 1978;

(vi). the Coconut Development Authority, the Coconut Research Board and the Coconut Cultivation Board, established by or under the Coconut Development Act, No. 46 of 1971;

(vii). the Widows' and Orphans' Pension Fund for Public Officers of Sri Lanka (Chapter 431) ;

(viii). any Widows' and Orphans' Pension Fund or Scheme established for the Local Government Service ;

(ix). any institution or trust of a public character established by any written law, solely for the purposes of scientific research;

(x). the S.W.R.D Bandaranaike National Memorial Foundation, established by he S.W.R.D Bandaranaike National Memorial Foundation Law, No. 2 of 1975;

(xi). the National Science Foundation, established by the Science and Technology Development Act, No. 11 of 1994 ;

(xii). the Industrial Technology Institute, established by the Science and Technology Development Act, No. 11 of 1994;

(xiii). the Sri Lanka Standards Institution, established by the Sri Lanka Standards Institution Act, No.6 of 1984;

(xiv). any Resort Authority, constituted under subsection (1) of section 57 of the Tourist Development Act, No. 14 of 1968;

(xv). the Ceylon Tourist Board, established by the Ceylon Tourist Board Act, No. 10 of 1966;

(xvi). the Monetary Board, established by the Monetary Law Act (Chapter 422) being the profits and income of the Central Bank of Sri Lanka;

(xvii). any registered society within the meaning of the Co-operative Societies Law, No. 5 of 1972, the majority of the members of which are resident in Sri Lanka, being profits and income of that society for any year of assessment ending on or before March 31, 2008, arising out of any business specified by the Minister by notice published in the *Gazette*, having regard to Government policy in relation to

[$ 2, 9 of 2008]

[$ 2(1), 9 of 2015]

the Co- operative movement.

For the purpose of ascertaining the membership of a registered society of which another registered society is a member, each of the members of the second-mentioned society shall be deemed to be a member of the first mentioned society;

(xviii). the Sri Lanka Foundation Institute, established by the Sri Lanka Foundation Law, No. 31 of 1973;

(xix). the Sri Lanka Inventors Commission, established by the Sri Lanka Inventors Incentives Act, No. 53 of 1979;

(xx). the Ceylon Medical Council, established by the Medical Ordinance (Chapter 105);

(xxi). Ayurvedic Medical Council, established by the Ayurveda Act, No. 31 of 1961;

(xxii). the Homoeopathic Council, established by Homoeopathy Act, No. 7 of 1970.

(xxiii). the Sri Lanka College of Physicians established by the Sri Lanka College of Physicians (Incorporation) Act, No. 9 of 1971;

(xxiv). the Institute of Engineers, Ceylon, incorporated by the Institute of Engineers, Ceylon Act, No. 17 of 1968.

(xxv). the Sri Lanka Export Credit Insurance Corporation, established by the Sri Lanka Export Credit Insurance Corporation Act, No. 15 of 1978;

(xxvi). the Sri Lanka Export Development Board, established by the Sri Lanka Export Development Board Act, No. 40 of 1979.

(xxvii). the Sri Lanka Ex-Servicemen's Association, established by the Sri Lanka Ex-Servicemen's Association Law, No. 8 of 1976;

(xxviii). a company registered under part XI of the Companies Act, No. 7 of 2007, being profits and income arising to such company from a ship which is– *[S 2, 8 of 2012]*

(i) engaged in international operations;

(ii) owned or chartered by such company; and

(iii) deemed to be a Sri Lanka ship by reason of a determination made under paragraph (*c*) of section 30 of the Merchant Shipping Act, No. 52 of 1971,

other than profits and income arising to such company from the carriage, by that ship, of passengers, mails, livestock and goods, to or from a port in Sri Lanka;

(xxix). the Institute of Fundamental Studies Sri Lanka, established by the Institute of Fundamental Studies, Sri Lanka Act, No. 55 of 1981;

(xxx). the International Winged Beans (Dambala) Institute, established by the International Winged Beans (Dambala) Institute Act, No. 7 of 1982;

(xxxi). the Buddhist and Pali University of Sri Lanka and any Higher Educational Institution, established by or under, the Buddhist and Pali University of Sri Lanka Act, No. 74 of 1981;

(xxxii). the Sri Lanka Institute of Printing, established by the Sri Lanka Institute of Printing Act, No. 18 of 1984.

(xxxiii). the Energy Conservation Fund, established by the Energy Conservation Fund Act, No. 2 of 1985;

(xxxiv). the Tea Small Holdings Development Authority established by the Tea Small Holdings Development Law, No. 35 of 1975;

(xxxv). the Co-operative Development Fund, established under the Finance Act, No. 11 of 1963;

(xxxvi). the Board of Investment of Sri Lanka, established by the Board of Investment of Sri Lanka Law, No. 4 of 1978;

(xxxvii). the National Defence Fund, established by the National Defence Fund Act, No. 9 of 1985;

(xxxviii). the Sri Lanka Institute of Architects, incorporated by the Sri Lanka Institute of Architects Law, No. 1 of 1976;

(xxxix). the Surveyors' Institute of Sri Lanka, incorporated by the Surveyors' Institute of Sri Lanka Act, No. 22 of 1982;

(xl). the Institute of Chemistry, Ceylon, incorporated by the Institute of Chemistry (Ceylon) Act, No. 15 of 1972;

(xli). the Sri Lanka Institute of Development Administration, established by the Sri Lanka Institute of Development Administration Act, No. 9 of 1982;

(xlii). the Agricultural and Agrarian Insurance Board, established by the Agricultural and Agrarian Insurance Law, No. 20 of 1999;

(xliii). the Superior Courts Complex Board of Management, established by the Superior Courts Complex Board of Management Act, No. 50 of 1987;

(xliv). the Institute of Policy Studies of Sri Lanka, established by the Institute of Policy Studies of Sri Lanka Act, No. 53 of 1988;

(xlv). the Credit Information Bureau of Sri Lanka, established by the Credit Information Bureau of Sri Lanka Act, No. 18 of 1990;

(xlvi). Rubber Research Board, established under the Rubber Research Ordinance, (Chapter 439);

(xlvii). the Buddha Sasana Fund, established by the Buddha Sasana Fund Act, No. 35 of 1990;

(xlviii). the J R Jayawardena Centre, established by the J R Jayawardena Centre Act, No. 77 of 1988;

(xlix). the Institute of Supply and Materials Management, Sri Lanka, established by the Institute of Supply and Materials Management, Sri Lanka Act, No. 3 of 1981;

(l). the Stabilization fund for Tea, Rubber and Coconut, established under Part IV of the Finance Act, No. 38 of 1971;

(li). the Janasaviya Trust Fund, incorporated under the Trust Ordinance (Chapter 96);

(lii). the Institute of Bankers of Sri Lanka, established by the Institute of Bankers of Sri Lanka Act, No. 26 of 1979;

(liii). the Institute of Personnel Management, Sri Lanka, incorporated by the Institute of Personnel Management, Sri Lanka Law, No. 24 of 1976;

(liv). Public Enterprises Reform Commission of Sri Lanka, established by the Public Enterprises Reform Commission of Sri Lanka, Act, No. 1 of 1996;

(lv). the Securities and Exchange Commission of Sri Lanka, established by the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987;

(lvi). the Bandaranaike Museum Committee, incorporated under the Bandaranaike Museum Committee (Incorporation) Act, No. 28 of 1997;

(lvii). the Geological Survey and Mines Bureau, established under the Mines and Minerals Act, No. 33 of 1992;

(lviii). Management Corporation, established under the Apartment Ownership Law, No. 11 of 1973 as last amended by Act No. 39 of 2003 ;

(lix). the Sri Lanka Institute of Taxation, incorporated by the Sri Lanka Institute of Taxation (Incorporation) Act, No. 21 of 2000;

(lx). the Telecommunication Regulatory Commission of Sri Lanka, established by the Sri Lanka Telecommunications Act, No. 25 of 1991. *$ 2, 19 of 2009 w.e.f.01.04.2009*

(lxi). (lxi) the profits and income of the Insurance Board of Sri Lanka, established by the Regulation of the Insurance Industry Act, No. 43 of 2000; *[S 3, 22 of 2011] [w.e.f.01.04.2011]*

(lxii). the Institute of Certified Management Accountants of Sri Lanka established by the Institute of Certified Management Accountants of Sri Lanka Act, No. 23 of 2009; *[S 2, 8 of 2012] [w.e.f.01.04.2012]*

(lxiii). the Fund established by the National Child Protection Authority Act, No. 50 of 1998; *[S 2, 8 of 2012] [w.e.f.01.04.2012]*

(lxiv). College of General Practitioners of Sri Lanka established by the College of General Practitioners of Sri Lanka Act, No. 26 of 1974; *[S 2, 18 of 2013] [w.e.f.01.04.2013]*

(lxv). Sri Lanka Social Security Board established by the Sri Lanka Social Security Board Act, No. 17 of 1996; *[S 2, 18 of 2013] [w.e.f.01.04.2013]*

(lxvi). any Public Corporation to the extent of provision of services on behalf of the Government of Sri Lanka, free of charge out of the funds voted by Parliament from the Consolidated Fund or out of any loan arranged through the Government; *[S 2, 18 of 2013] [w.e.f.01.04.2013]*

(lxvii). Sri Lanka Savings Bank Limited incorporated under the Companies Act, No. 7 of 2007, which is merged with the National Development Trust Fund (NDTF); *[S 2, 18 of 2013] [w.e.f.01.04.2013]*

(lxviii). Lanka Puthra Development Bank Limited incorporated under the Companies Act, No. 17 of 1982; *[S 2, 18 of 2013] [w.e.f.01.04.2013] [S 3,(1) 8 of 2014] [w.e.f.01.04.2014]*

(lxix). any Government assisted private school other than that incorporated under the Companies Act, No.7 of 2007 which is registered with the Ministry of Education and mandated to follow the Government curricula set by the Ministry of Education and the circulars issued by such Ministry; *[S 2, 18 of 2013] [w.e.f.01.04.2013]*

(lxx). the National Enterprise Development Authority established under the National Enterprise Development Authority Act, No. 17 of 2006; *[S 3,(1) 8 of 2014] [w.e.f.01.04.2014]*

(lxxi). the Sri Lanka Institute of Marketing incorporated under the Sri Lanka Institute of Marketing (Incorporation) Act, No. 41 of 1980; *[S 3,(1) 8 of 2014] [w.e.f.01.04.2014]*

(lxxii). the Institute of Physics, Sri Lanka incorporated under the Institute of Physics, Sri Lanka (Incorporation) Act, No. 12 of 1986; *[S 3(1) 8 of 2014] [w.e.f.01.04.2014]*

(lxxiii). the Lionel Wendt Memorial Fund incorporated under section 114 of the Trusts Ordinance (Chapter 87); and *[S 3(1) 8 of 2014] [w.e.f.01.04.2014]*

(lxxiv). the Diabetes Association of Sri Lanka incorporated by the Diabetes Association of Sri Lanka (Incorporation) Act, No. 1 of 1992. *[S 2(4) 9 of 2015]*

(*c*) the income of any local authority or Government institution, exclusive of–

(i) the income of any trust or other matter vested in or administered by such authority or institution, being income to which such authority or institution is not beneficially entitled; and

(ii) the profits and income for any period commencing on the date of acquisition or vesting, as the case may be, of any business undertaking acquired by or vested in the Government, under the Business Undertakings (Acquisition) Act, No. 35 of 1971;

(*d*) the profits and income of –

(i) the Government of any foreign country, being profits and income derived by that Government either directly or through any agency of that Government from aid granted in money, goods, services or in any other form by that Government, to the Government of Sri Lanka;

(ii) the Government of the People's Republic of China, or of any agency of that Government, being profits and income derived from the business of ship-owner or charterer, and referred to in any agreement entered into between that Government and the Government of Sri Lanka;

(e) the profits and income of a charitable institution, being— *[S 3, 22 of 2011] w.e.f.01.04.2008 [S 2, 8 of 2012] [w.e.f.01.04.2011]*

(i) the profits for any year of assessment commencing prior to April 1, 2011, of a business carried on by that institution, if such profits are applied solely to a charitable purpose of that institution, and— *[S 2, 8 of 2012] [w.e.f.01.04.2011]*

(A) either the business is carried on in the course of the actual carrying out of a primary purpose of that institution or the work in connection with the business is mainly performed by the beneficiaries of that institution; or

(B) such institution receives grants from the Government of Sri Lanka and is approved by the Minister for the purposes of this paragraph, and the business is of a casual nature;

(ii) the net annual value of–

(A) any place of public worship and its premises administered by such institution;

(B) any place or premises owned and occupied by such institution solely for any of the purposes of that institution;

(iii) the profits and income from any property donated by royal or other grant before March 2, 1815, to any place of public worship administered by such institution, in so far as such profits and income are applied to the purposes for which such grant was made;

(*f*) the profits and income of any undertaking for operating yachts and pleasure crafts registered with the Director of Merchant

Shipping, if such undertaking is–

(i) carried on by individuals who are not citizens of Sri Lanka or by a company the shares of which are owned entirely by individuals who are not citizens of Sri Lanka or by non-resident companies; and

(ii) approved by the Minister;

(*g*) the profits and income of –

(i) the Tower Hall Theatre Foundation, established by the Tower Hall Theatre Foundation Act, No. 1 of 1978 ;

(ii) the Central Cultural Fund, established by the Central Cultural Fund Act, No. 57 of 1960 ; and

(iii) the Presidents Fund, established by the Presidents Fund Act, No. 7 of 1978; *$ 2, 9 of 2008*

(h) the profits and income of any registered society within the meaning of the Co-operative Societies Law, No. 5 of 1972 or under the respective Statute enacted by a Provincial Council providing for such registration and the profits and income of Lak Sathoosa Limited registered under the Companies Act, No. 7 of 2007. *$ 2, 9 of 2008 w.e.f.01.04.2008 [S 3, 22 of 2011 w.e.f.01.04.2011]*

(i) The profits and income of the Api Wenuwen Api Fund established by the Api Wenuwen Api Fund Act, No. 6 of 2008; *$ 2, 9 of 2008 w.e.f.01.04.2008*

(*j*) the profits and income for every year of assessment within the period of ten years commencing on April 1, 2011, of- *[S 3, 22 of 2011 w.e.f.01.04.2011]*

(i) Sri Lankan Airlines Limited;

(ii) Mihin Lanka (Pvt.) Limited;

(*k*) the profits and income for every year of assessment within the period of five years commencing on April 1, 2011, of - *[S 3, 22 of 2011 w.e.f. 01.04.2011]*

(i) Ceylon Electricity Board;
(ii) National Water Supply and Drainage Board;
(iii) Ceylon Petroleum Corporation;
(iv) Sri Lanka Ports Authority,

if, twenty five *per centum* of the gross profits of such Board, Corporation or Authority, as the case may be, for the year of assessment immediately preceding such year of assessment is paid as dividend to the Government; *[S 3(2) 8 of 2014] [w.e.f.01.04.2014]*

(l) the profits and income for any year of assessment commencing on or after April 1, 2013, of Sri Lanka Deposit Insurance Scheme established by regulation made under the Monetary Law Act (Chapter 422); *[S 2, 18 of 2013 w.e.f. 01.04.2013]*

(m) the profits and income of any institution, established on or after April 1, 2013, by relocating in Sri Lanka the headquarters or regional head offices of institutions in the international network, as specified by the Commissioner-General by Notice published in the Gazette. *[S 3(4) 8 of 2014] [w.e.f.01.04.2014]*

8. (1) There shall be exempt from income tax– Exemption from income tax of certain profits and income of certain officers and employees

(*a*) the emoluments, pension and any other benefits arising to any person from the office of the President of the Republic of Sri Lanka;

(*b*) one half of the official emoluments for any year of assessment ending on or before March 31, 2008, paid to *$ 3, 9 of 2008 w.e.f.01.04.2008*

(i). any individual who holds any paid office under the Republic, out of the Consolidated Fund;

(ii). any employee of any public corporation, being a public corporation which pays such emoluments or such pension or such profits from employment wholly or partly out of the sums voted annually by Parliament to such corporation, from the Consolidated Fund;

(iii). the Governor of any Province, appointed under Article 154B of the Constitution;

(iv). any member of any Provincial Council;

(v). any employee of any Provincial Council or to any officer of any Provincial Public Service;

(vi). any member of any local authority;

(vii). any employee of any local authority;

(viii). any employee of any University which is established or deemed to be established, by the Universities Act, No. 16 of 1978;

(ix). any employee of the Institute of Policy Studies of Sri Lanka, established by the Institute of Policy Studies of Sri Lanka Act, No. 53 of 1988;

(x). a member or employee of any board or commission of inquiry established by or under any law, being a board or commission all the members of which are appointed by the President or by a Minister;

(*c*) such pension or any such profits from employment referred to in paragraph (*c*) of subsection (1) of section 4, as are received by

any person in respect of past services performed by such person or by any other person, whether before or after the commencement of this Act, as an individual, an employee, the Governor, a member an officer or an employee, as the case may be, referred to in paragraph (*b*) ;

(*d*) the emoluments arising in Sri Lanka and any income not arising in Sri Lanka of any individual who is a scientist, technician, expert or adviser, who is not a citizen of Sri Lanka and who is brought to and employed in Sri Lanka by any undertaking, being an enterprise with which an agreement has been entered into by the Board of Investment under section 17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978, for the purposes of that undertaking: *$ 3, 19 of 2009 w.e.f.01.04.2008*

Provided that emoluments of an individual shall not be exempt from income tax, after the date of the cessation of employment of such individual in such undertaking or the date on which the exemption from tax granted by such agreement ends, whichever is the earlier;

(dd) The emoluments arising in Sri Lanka and any income not arising in Sri Lanka of any individual who is an expert and who is not a citizen of Sri Lanka and is employed in Sri Lanka by any undertaking which has entered into an agreement with the Government of Sri Lanka, being an agreement which provides for the exemption from income tax of such emoluments or by any Strategic Development Project *Gazetted* by the Board of Investment of Sri Lanka under subsection (4) of section 3 of the Strategic Development Projects Act, No. 14 of 2008; *$ 3, 9 of 2008*

For the purpose of this paragraph, "expert" means an individual who has expertise in such field as may be determined by the Commissioner- General, as being a field in which sufficient expertise is not available among the citizens of Sri Lanka;

(ddd) the emoluments arising in Sri Lanka of any individual who is an expert and who is not a citizen and is brought to and employed in Sri Lanka by any undertaking for the purposes of that undertaking, being an undertaking with which an agreement has been entered into by the Board of Investment of Sri Lanka and invested more than US $ 50 Million as direct foreign investment made on or after April 1, 2013, during the period of its tax holiday under section 17A or section 16D as the case may be, and if it is confirmed by the Board of Investment of Sri Lanka that the service rendered by him in carrying out activities of such undertaking in Sri Lanka is essential and such service is not obtainable from Sri Lanka: *[S 3, 18 of 2013 w.e.f. 01.04.2013]*

Provided that the number of experts in an undertaking to whom this provision is applicable shall not exceed five.

For the purpose of this paragraph "expert" means an individual who has expertise in such field as may be determined by the Commissioner - General on the recommendation made by the Board of Investment of Sri Lanka, as being a field in which sufficient expertise is not available among the citizens of Sri Lanka;

(*e*) the official emoluments arising in Sri Lanka, and any income not arising in or derived from Sri Lanka of—

(i) the Diplomatic Representative in Sri Lanka (by whatever name or title designated) of the Government of any other country;

(ii) any such member of the staff of any Diplomatic Representative referred to in subparagraph (i), any such Consul or Trade Commissioner, and any such member of the staff of such Consul or Trade Commissioner, as is a citizen or subject of the country represented by that Diplomatic Representative, Consul or Trade Commissioner, if the Minister, on being satisfied that a corresponding official of the Government of Sri Lanka resident in the country represented by that person is or would be granted similar exemption from income tax by that country, declares that the exemption shall apply in that case :

Provided that the exemption shall not apply in the case of any person, if such person carries on or exercises in Sri Lanka any other employment or any trade, business, profession or vocation;

(iii) any expert, adviser, technician or official who is brought to Sri Lanka by the Government of Sri Lanka through any Specialized Agency of the United Nations Organisation, or under the Point Four Assistance Programme of the Government of the United States of America, or through the Colombo Plan Organisation (including its Technical Assistance Bureau) or through the Asia Foundation or any other organization approved by the Minister as being of a similar character, and whose salary or principal emolument is–

(A) payable out of the funds provided by way of a grant or other assistance to the Government of Sri Lanka by any such Organisation, Programme or Foundation or any other organization, as the case may be; or

(B) not payable by the Government of Sri Lanka;

(iv) any trainee from abroad who is sent to Sri Lanka under any of the Technical Co-operation Programmes of the United Nations Organisation and its Specialized Agencies, or of the Colombo Plan Organisation, or of any other organization approved by the Minister as being of a similar character;

(v) any official of the United Nations Organisation who is resident in Sri Lanka, and who is not a citizen of Sri Lanka;

(vi) members of any naval, military or air force of any country other than Sri Lanka, who are in Sri Lanka at the request or with the concurrence, of the Government of Sri Lanka;

(vii) persons employed in any civil capacity by the Government of any country other than Sri Lanka who, not being persons resident in Sri Lanka for a period exceeding three months immediately prior to the date of commencement of such employment, are so employed in or visit Sri Lanka for any purpose connected with the presence in Sri Lanka, of such members of any naval, military or air forces, as are referred to in sub-paragraph (vi); and

(viii) any person who is not a citizen of Sri Lanka and who is employed in Sri Lanka, by the Asia Foundation or by the Overseas Economic Cooperation Fund of Japan or the Commonwealth Secretariat in any of its programmes for technical co-operation with Sri Lanka or the Commonwealth Development Corporation :

Provided that the liability to income tax of any person referred to in subparagraphs (i), (ii), (iii), (iv) or (v) as regards other income arising in or derived from Sri Lanka, shall be the same as though he was a non-resident person;

(*f*) the official emoluments of any citizen of Sri Lanka who is employed as an expert, technician or official by the United Nations Organisation or by any Specialized Agency of that Organisation;

(*g*) the official emoluments of any individual who is employed by the World Tourism Organisation, the International Irrigation Management Institute, the Colombo Plan Bureau, the Asian Development Bank, the World Bank, the International Committee of the Red Cross, the World Conservation Union or the European Investment Bank;

(*h*) the value of any travel warrant or passage granted to a person who is not a citizen of Sri Lanka, to enable him to come to Sri Lanka to assume duties or to visit his home abroad, or to return

from Sri Lanka on the termination of his services, whether on retirement or otherwise, or of any travel warrant or passage granted to the spouse or any son or daughter of such person to come to Sri Lanka or to visit his or her home abroad or to return from Sri Lanka, on the termination of the services of such person; *$ 3, 9 of 2008 w.e.f.01.04.2006*

(*i*) any allowance granted by an employer to his employee for travelling, subsistence and lodging, in respect of travel by such employee outside Sri Lanka, in connection with his employment;

(*j*) the emolument earned or the pension arising in any year of assessment, in foreign currency, by or to any individual resident in Sri Lanka in respect of–

(i) services rendered by him in that year of assessment; or

(ii) past services rendered by him or his spouse,

outside Sri Lanka in the course of any employment carried on, or exercised by him or his spouse, if such emoluments or pension are paid to him in Sri Lanka or such emoluments or pension (less such amount expended by such individual outside Sri Lanka as is considered by the Commissioner-General to be reasonable expenses) are remitted by him to Sri Lanka;

(*k*) the value of any free transport by motor coach provided by an employer to an employee for travel by such employee, from his residence to his place of work or from his place of work to his residence;

(*l*) such part of any sum paid to an employee at the time of his retirement, from any provident or pension fund or the Employees Trust Fund established by the Employees Trust Fund Act, No. 46 of 1980, as represents income derived by that fund, for any period commencing on or after April 1, 1987, from investments made by it;

(*m*) such part of any sum referred to in paragraph (*c*) of subsection (1) of section 4, paid to any employee at the time of his retirement from any employment in any company formed under the Conversion of Public Corporations or Government Owned Business Undertakings into Public companies Act. No, 23 of 1987, as is attributable to his period of service ending before April 1, 1997, in any public corporation or any Government Owned Business Undertaking, as the case may be;

(*n*) such part of any sum referred to in paragraph (c) of subsection (1) of section 4, paid to any employee at the time of his *$ 3, 10 of 2007*

retirement from any employment in any public corporation other than any public corporation referred to in sub-paragraph (ii) of paragraph (*b*), or at any subsequent time, as is attributable to the period of service of such employee prior to April 1, 1997, in such public corporation;

(*o*) such part of any sum as does not exceed two million rupees, paid to any employee by the employer of such employee, being a sum paid as compensation for loss of any office or employment consequent to—

(i) the voluntary retirement by such employee in accordance with a scheme which in the opinion of the Commissioner-General, is uniformly applicable to all employees employed by such employer; or

(ii) the retrenchment of such employee by such employer in accordance with a scheme approved by the Commissioner of Labour; *$ 3, 10 of 2007*

(*p*) the value of any benefits accruing before April 1, 2011, to an employee of any employer from the allotment or the grant, as the case may be, to such employee or to any nominee of such employee by or on behalf of such employer, of any share or any option to buy any share in any company, in accordance with a scheme which in the opinion of the Commissioner-General is reasonable**;** and *[$ 4, 22 of 2011 w.e.f.01.04.2011]*

(*q*) the emoluments earned in any year of assessment commencing on or after April 1, 2007, by any resident individual from employment on a ship which is— *$ 3, 10 of 2007*

(i) owned or chartered by a company registered as an off-shore company under Part XI of the Companies Act, No. 7 of 2007 ; or

(ii) deemed to be a Sri Lanka ship by virtue of a determination made under paragraph (*c*) of section 30 of the Merchant Shipping Act, No. 52 of 1971;

(*r*) rental value of one place of residence provided to any individual referred to in paragraph (*b*) of subsection (*1*), rent free or at a rent less than the rental value of such place; *$ 4, 22 of 2011 w.e.f.01.04.2011*

(*s*) either the value of benefit from private use of one motor vehicle provided by the employer or the aggregate of any allowance paid in lieu of the provision of such vehicle and the value of any transport facility as may be specified by the Commissioner-General by Order published in the Gazette , subject to a maximum of fifty thousand rupees for a calendar month; *$ 4, 22 of 2011 w.e.f.01.04.2011*

[S 4(1) 8 of 2014] [w.e.f.01.04.2014]

(*t*) where the profits from employment of any individual who is a citizen of Sri Lanka or resident in Sri Lanka other than profits referred to in paragraph (*c*) of subsection (1) of section 4, exceeds five hundred thousand rupees, for any year of assessment commencing prior to April 1, 2013, then- *$ 4, 22 of 2011 w.e.f.01.04.2011*

S.3, 18 of 2013 w.e.f. 01.04.2013

(i) such part of such profits in excess of five hundred thousand rupees; or *$ 4, 22 of 2011 w.e.f.01.04.2011*

(ii) one hundred thousand rupees,

whichever is lower; *$ 4, 22 of 2011 w.e.f.01.04.2011*

(*u*) any special payment made to any individual or holder of office, referred to in paragraph (*b*) of subsection (*1*) for emergency or priority services or for any special task rendered or carried out by such individual; *$ 4, 22 of 2011 w.e.f.01.04.2011*

(*v*) official emoluments arising in Sri Lanka to any non-citizen individual from the participation in any international event conducted in Sri Lanka;

(*w*) such part of official emoluments as does not exceed one hundred thousand rupees, for any year of assessment commencing prior to April 1, 2013, arising in Sri Lanka to any individual who is not a citizen of Sri Lanka and not resident in Sri Lanka; *S.3, 18 of 2013 w.e.f. 01.04.2013*

(x) the profits and income not exceeding forty eight thousand rupees for any year of assessment, if the aggregate of such profits and income is not more than forty eight thousand rupees other than any employment income or any profits and income which is taxable at source as final tax, of any individual who is an employee and who is not engaged in any trade, business, profession or vocation, if tax is deducted from his employment income for that year of assessment; and *[S4(3) 8 of 2014] [w.e.f.01.04.2014]*

(y) benefit from provision of any loan by the employer free of interest or at a subsidized rate of interest, if such loan is provided not out of funds borrowed for that purpose. *[S3(2) 9 of 2015]*

(2) Nothing in paragraph (*d*) of subsection (1) shall apply to or in relation to any individual who is not a citizen of Sri Lanka, and who—

(*a*) has entered into a contract of employment; or

(*b*) is brought to and employed in Sri Lanka,

with or by any undertaking, other than an undertaking being an enterprise with which an agreement has been entered into prior to December 31, 1994, on an application made in that behalf prior to November 11, 1993 by the Board of Investment of Sri Lanka, under section 17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978.

(3) Notwithstanding the provisions of the proviso to paragraph (*d*) of subsection (1) and of subsection (2), the emoluments of any individual who is not a citizen of Sri Lanka and who is brought to and employed in Sri Lanka by an enterprise with which an agreement has been entered into by the Board of Investment of Sri Lanka under section 17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978, and which has opted to be charged with income tax in lieu of the exemption from income tax granted under such agreement, shall be exempt from income tax upto the date of cessation of employment of such individual in such enterprise or the date on which the exemption from income tax granted in respect of such enterprise would, but for such option, have ended, whichever is earlier, be exempt from income tax.

$ 3, 19 of 2009

9. There shall be exempt from income tax–

Exemption from income tax of certain interest received.

[S 5(1) 8 of 2014] [w.e.f.01.04.2014]

(a) the interest accruing to any company, partnership or other body of persons outside Sri Lanka, from any loan granted by that company, partnership or body of persons to any person or partnership in Sri Lanka, notwithstanding whether such company, partnership or body of persons has a permanent establishment or any business connection in Sri Lanka, if such loan is—

$ 3, 8 of 2012 [w.e.f.01.04.20112

(i) granted prior to April 1, 2012, and approved by the Minister as being essential for the economic progress of Sri Lanka; or

(ii) granted on or after April 1, 2012;

S.4, 18 of 2013 w.e.f. 01.04.2013

(aa) the interest accruing to any person or partnership or other body of persons outside Sri Lanka from investment made out of foreign currency brought in to Sri Lanka on or after April 1, 2012, in any security or bond issued by any person in Sri Lanka;

(*b*) the interest accruing to any person or partnership outside Sri Lanka, from any security, note or coupon issued by the Government of Sri Lanka in respect of a loan granted in foreign currency by that person or partnership to the Government of Sri Lanka, if such loan is—

$ 3, 8 of 2012 [w.e.f.01.04.20112

(i) granted prior to April 1, 2012, and approved by the Minister as being essential for the economic progress of Sri Lanka; or

(ii) granted on or after April 1, 2012;

(*c*) the interest accruing to any person from moneys lying to his credit in a special account opened by him or on his behalf in a commercial bank with the approval of the Central Bank of Sri Lanka, for the deposit in accordance with the conditions

imposed by the Central Bank of Sri Lanka, of sums obtained by him by the exchange of foreign currency held by him outside Sri Lanka;

(*d*) the interest accruing to any person on moneys lying to his credit in foreign currency in any account opened by him or on his behalf , in any commercial bank or in any specialised bank, with the approval of the Central Bank of Sri Lanka;

(*e*) the interest accruing to any person on moneys invested in Reconstruction Bonds issued by the Government of Sri Lanka, denominated in United States Dollars;

(*f*) the interest accruing on or before 31, March 2009, to any person on moneys invested in Sri Lanka Development Bonds denominated in United States Dollars, issued by the Central Bank of Sri Lanka; *$ 4, 19 of 2009*

(*g*) the interest accruing to any person on moneys lying to his credit in foreign currency with any foreign currency banking unit;

(h) such part of any interest as does not exceed- *[$ 5, 22 of 2011 w.e.f.01.04.2011]*

(i) two hundred thousand rupees accruing for, or arising in, any year of assessment ending prior to April 1, 2011; and

(ii) five hundred thousand rupees accruing for, or arising in, any year of assessment commencing on or after April 1, 2011, but prior to January 1, 2015, to any individual who is a citizen of Sri Lanka and resident in Sri Lanka and who is more than fifty nine years old the first day of that year of assessment, from any deposit maintained in the National Savings Bank established by the National Savings Bank Act, No. 30 of 1971 or by the Bank of Ceylon established by the Bank of Ceylon Ordinance (Chapter 397) or the People's Bank established by the People's Bank Act, No. 29 of 1961 or the State Mortgage and Investment Bank established by the State Mortgage and Investment Bank Law, No. 13 of 1975 or the Housing Development Finance Corporation Bank of Sri Lanka established by the Housing Development Finance Corporation of Sri Lanka Act, No. 7 of 1997 as amended by Act, No. 15 of 2003 or the SME Bank Ltd. and Lanka Puthra Development Bank Limited incorporated under the Companies Act, No. 17 of 1982 or any bank established under the Regional Development Banks Act, No. 6 of 1997 or any registered society within the meaning of the Co-operative Societies Law, No. 5 of 1972; *[$ 4(1), 9 of 2015]* *$ 4, 9 of 2008*

(hh) such part of any interest accruing for, or arising in, for the period commencing on January 1, 2015 and ending on March 31, 2015, or for any year of assessment commencing on or after April 1, 2015 to any individual who is a citizen of Sri Lanka and resident in Sri Lanka and who is sixty years or more or reaching sixty years during the period commencing from January 1, 2015 and ending on March 31, 2015 or who is more than fifty nine years old on the first day of the year of assessment commencing on or after April 1, 2015, from any deposit maintained in any bank or 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;

[$ 4(2), 9 of 2015] w.e.f. 01/01/2015

(hhh) such part of any interest accruing for, or arising in, any year of assessment commencing on or after April 1, 2015, to any individual or charitable institution where such individual or charitable institution maintains one savings account or more than one savings account, where the interest paid for a month is less than five thousand rupees.

[$ 4(2), 9 of 2015]

For the purpose of this paragraph, "savings account" means an account, whether or not subject to any condition affecting the right to withdraw money therefrom and which bears interest at a rate not dependent on the period for which the deposit is maintained;

(*i*) the interest or discount accruing or arising to any individual from a Sri Lanka Nation Building bond denominated in foreign currency and issued by or on behalf of the Government of Sri Lanka, being a bond purchased by such individual ;

(*j*) the interest accruing in any year of assessment to any charitable institution, where it is proved to the satisfaction of the Commissioner-General in relation to that year of assessment, that such interest is applied solely for the purpose of providing care for the children, the elderly or the disabled, in a home maintained by such charitable institution ;

$ 4, 10 of 2007

(*k*) the interest accruing to any person from any money deposited in any Securities Investment Account;

$ 4, 10 of 2007 w.e.f.30.03.2007 $ 4, 9 of 2008 [S 5(2) 8 of 2014]

(l) The interest or discount arising or accruing to any non-resident citizen of Sri Lanka, from the purchase of any Motherland Development Bond denominated in foreign currency and issued by or on behalf of the Government of Sri Lanka;

$ 4, 9 of 2008 w.e.f.29.02.2008

(m) The interest accruing or arising on or after April 1, 2008, from any investment made outside Sri Lanka to any person resident in Sri Lanka, where such interest is remitted to Sri Lanka through a bank. *$ 4, 9 of 2008 w.e.f.29.02.2008*

(n) the interest accruing to Lady Lochore Loan Fund on any loan granted by such Fund to any employee, of any Government Institution as defined in section 132 of this Act. *$ 4, 19 of 2009 w.e.f.01.04.2009*

(o) the interest or discount accruing or arising to any person from any investment made on or after January 1, 2013- *S.4, 18 of 2013 w.e.f. 01.04.2013*

(i) in any Corporate Debt Security, quoted in any Stock Exchange licensed by the Securities and Exchange Commission; and

(ii) In any Municipal Bond issued by any Municipal Council with the approval of the Ministry of Finance.

(p) the interest or discount accruing or arising to any person from any investment made on or after January 1, 2015 in any Corporate Debt Security, issued by the Urban Development Authority established by the Urban Development Authority Law, No. 41 of 1978; *[$ 4(3), 9 of 2015]*

(q) the interest accruing or arising to any individual who is Sri Lankan, living or employed abroad from any investment made on or after January 1, 2015 in Nation Development Bonds issued by the Central Bank of Sri Lanka on behalf of the Government. *[$ 4(3), 9 of 2015]*

10. (1) There shall be exempt from income tax— Exemption from income tax of certain dividends.

(a) any dividend paid by a company with which an agreement has been entered into by the Board of Investment of Sri Lanka under section 17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978, being an agreement which has been entered into prior to December 31, 1994, on an application made in that behalf prior to November 11, 1993–

(i) to any person, during the period for which the profits and income of that company are exempt from income tax under the terms of that agreement or within one year thereafter, out of the profits and income of the company which are exempt from income tax;

(ii) to any person, who is not resident in Sri Lanka notwithstanding anything to the contrary in subsection (1) of section 53;

(b) any dividend paid to a unit holder by any unit trust or mutual fund;

$ 5, 10 of 2007 w.e.f.30.03.2007

(c) any dividend paid by a flagship company with which an agreement has been entered into by the Board of Investment of Sri Lanka, to any shareholder during the period for which the profits and income of that company are exempt from income tax under the terms of that agreement or within one year thereafter, out of the profits and income of such company which are exempt from income tax.

In this paragraph, "flagship company" means any company which 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 and which has in accordance with such agreement invested in Sri Lanka, within the period specified in such agreement, not less than fifty million United State Dollars or its equivalent in any other foreign currency :—

(i) in the purchase or construction of any building or in the purchase of any land, plant, machinery or furniture; and

(ii) in the acquisition of any asset not included in sub-paragraph (i),

for the use of the undertaking carried on by that company;

(*d*) any dividend paid by a company with which an agreement has been entered into on or after November 8, 1995, by the Board of Investment of Sri Lanka under section 17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978, to any shareholder of that company during the period for which the profits and income of that company are exempt from income tax under the terms of that agreement or within one year thereafter, out of the profits and income which are exempt from income tax ;

(*e*) any dividend out of the profits of any company with which an agreement has been entered into by the Board of Investment of Sri Lanka under section 17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978, from the operation by such company of a hospital with facilities for paying and nonpaying patients for indoor and outdoor treatment, paid to any shareholder of such company during the period of five years reckoned from the commencement of the year of assessment in which such

hospital commences operations;

(*f*) any dividend out of the profits within the meaning of paragraph (*a*) of section 3 of a company—

(i) with which an agreement has been entered into by the Board of Investment of Sri Lanka under section 17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978 ; and

(ii) to which a mining licence issued under the Mines and Minerals Act, No. 33 of 1992 has been assigned,

paid to any share holder of such company during the period for which the profits and income of that company are chargeable with income tax, at such rate as is determined in accordance with subparagraph (*a*) of the further proviso to paragraph (iv) of regulation 2 of Regulation No. 1 of 1995, made under section 24 of the Board of Investment of Sri Lanka Law, No. 4 of 1978, as last amended by Regulation published in Gazette 1019/13 of March 19, 1998 and specified in such agreement or within one year thereafter ;

(*g*) any dividend paid to a shareholder of a company out of such profits and income of that company arising on or after April 01, 1977, which are exempt from income tax under section 15, 17, 18, 18A, 19, 20, 20A, 21, 21A, 21B, 21C, 21D, 21E, 21F, 21G or 21H of the Inland Revenue Act, No. 38 of 2000 or section 8(*a*) (xxxviii), 15, 16A, 16B, 16C, 16D, 17A, 17C, 17D, 17J, 17JJ, 17K, 17KK, 17L, 17M, 18, 19, 20, 20A 20B, 20C, 21, 22, 22A, 22B, 22C, 22D, 22DDD, or 22DDDD of the Inland Revenue Act, No. 28 of 1979 or under the Inland Revenue Act, No. 4 of 1963, if such dividend is paid during the period for which such profits and income of that company are exempt from income tax under any of those provisions or within one year thereafter ;

(*h*) any dividend paid to a shareholder of a company out of any such dividend received by that company during the period for which the dividends as is referred to in paragraphs (*a*), (*c*), (*d*), (*e*), (*f*), or (*g*) respectively, are exempt from income tax, if the first mentioned dividend is paid during any year of assessment in which the second mentioned dividend was received by that company or within one year thereafter ;

(*i*) any dividend paid to a shareholder of a company out of any such dividend as is referred to in paragraphs (*a*), (*c*), (*d*), (*e*), (*f*) or (*g*) respectively, received by that company through one or more intermediary companies during the period for which the dividends referred to in paragraphs (*a*),

(*c*), (*d*), (*e*), (*f*), (*g*) are exempt from income tax, or within two years thereafter, if the first mentioned dividend is paid during the year of assessment in which the second mentioned dividend was received or within one year thereafter;

(j) any dividend paid on or after April 1, 2008, by a company not resident in Sri Lanka to any shareholder resident in Sri Lanka, where the amount of such dividend is remitted to Sri Lanka through a bank; *$ 5, 9 of 2008*

(*k*) any dividend paid to a shareholder of a company out of such profits and income of that company which are exempt from income tax under section 16C or section17A of this Act, if such dividend is paid during the period for which such profits and income are exempt from income tax: *$ 4, 8 of 2012 w.e.f.01.04.2012*

Provided that where such company is a resident company engaged in any construction project, then such exemption shall be applicable to any dividend paid by such company during the period for which such profits and income are exempt from income tax or within one year thereafter; *[S 6(1) 8 of 2014]*

(*l*) any dividend paid to a shareholder of a company out of such dividend as is referred to in paragraph (*j*), received by that company, if the first mentioned dividend is paid within three months of the receipt of the second mentioned dividend by that company; *[S 6(2) 8 of 2014] [w.e.f.01.04.2014]*

(m) any dividend paid to a shareholder of any new undertaking commenced on or after April 1, 2015 for manufacture of products for export, and which is not formed by splitting-up or re-construction of an existing undertaking with an investment of not less than two million US Dollars (or equivalent in any other currency) and for which depreciation allowances are entitled to under paragraph (*h*) of the first proviso to paragraph (*a*) of subsection (1) of section 25, where such dividends are paid out of such profits and income of such new undertaking during the period reckoned from the year of assessment in which such new undertaking commences to carry on commercial operations and another four years of assessment immediately succeeding that year of assessment. *[$ 5(2), 9 of 2015]*

(2) (*a*) The provisions of paragraphs (*c*), (*d*), (*e*), or (*f*) of subsection (1) shall not apply to any dividend paid on or after April 1, 2004 in relation to any agreement referred to therein which has been entered into on or after November 6, 2002; or

(*b*) The provisions of paragraphs (*g*) of subsection (1) shall not

apply to any dividend paid on or after April 1, 2004 by any company referred to in that paragraph which qualified for an exemption on or after November 6, 2002.

11. (1) There shall be exempt from income tax—

Exemption from income tax of certain profits and income from lands and improvements thereon.

(*a*) the net annual value of not more than one place of residence, owned by and occupied by or on behalf of an individual;

(*b*) the income accruing to the owner of a house which is converted into two or more places of residence, each such place of residence being separately assessed for the purpose of rates, such income accruing being the income from any such place of residence for–

(i) the year of assessment in which such conversion was effected and for the five years of assessment immediately succeeding that year of assessment, if the floor area of such place of residence does not exceed one thousand square feet; or

(ii) the year of assessment in which such conversion was effected and for the three years of assessment immediately succeeding that year of assessment, if the floor area of such place of residence exceeds one thousand square feet but does not exceed two thousand square feet;

(*c*) the net annual value of any land and improvements thereon owned by a body of persons, the primary object of which is the promotion of any sport which is recognized as a sport for the purposes of the Sports Law, No. 25 of 1973 and used for that object by that body.

(2) There shall be exempt from income tax –

$ 6, 9 of 2008 w.e.f.01.04.2008

(a) income accruing to the owner of any house from such house, the construction of which is completed prior to April 1, 2008, being income for that year of assessment in which such construction was completed and for the four years of assessment immediately succeeding that year of assessment, if such house is used solely for residential purposes:

Provided that where the floor area of the house is one thousand and five hundred square feet for less, the income accruing to the owner shall be exempt from income tax for the year of assessment in which the construction of that house is completed and for the six years of assessment immediately succeeding that year of assessment; and

(b) income accruing to the owner of any house from such house, the floor area of which is five hundred square feet or less and the construction of which is completed on or after April 1, 2008, being income for that year of assessment in which the construction was completed and for the four years of assessment immediately succeeding that year of assessment, if such house is used solely for residential purposes.

(3) For the purposes of this section "owner" includes a co-owner.

12. There shall be exempt from income tax any sum paid to any person as a subsidy or grant– Exemption from income tax of certain subsidies.

(*a*) out of the Capital Fund, established under the Sri Lanka Tea Board Law, No. 14 of 1975;

(*b*) out of the rubber Replanting Subsidy Fund, established under the Rubber Replanting Subsidy Act, (Chapter 437) :

(*c*) by the Coconut Cultivation Board, established under the Coconut Development Act, No. 46 of 1971;

(*d*) by the Ministry of the Minister in charge of the subject of Fisheries , for the purchase by such person of fishing boats, marine engines, fishing gear and other fishing equipment;

(*e*) out of the Export Development Fund, established by the Sri Lanka Export Development Act, No. 40 of 1979;

(*f*) under any other scheme for the planting or replanting of any other agricultural plant ;

(*g*) out of the Mill Development Fund, administered by the Coconut Development Authority established under the Coconut Development Act, No. 46 of 1971, for the modernization of machinery.

13. There shall be exempt from income tax— Miscellaneous exemptions from income tax.
$ 7, 9 of 2008

(a) the emoluments earned in any year of assessment prior to April 1, 2008, in foreign currency by any individual resident in Sri Lanka, in respect of services rendered by him in that year of assessment outside Sri Lanka in the course of any vocation carried on or exercised by him, if such emoluments (less such amount expended by such individual outside Sri Lanka as is considered by the Commissioner General to be reasonable personal expenses) are remitted by him to Sri Lanka;

(b) the profits and income earned in foreign currency by a resident

company or partnership carrying on or exercising any trade, business or vocation, in any year of assessment–

(i) in respect of services rendered by that company or partnership in that year of assessment outside Sri Lanka (including, in relation to the year of assessment commencing on April 1, 2006, services relating to any construction project); *$ 6, 10 of 2007 w.e.f.30.03.2007*

(ii) in respect of any off-shore business which does not in any way involve any goods manufactured or produced in Sri Lanka or any goods imported into Sri Lanka; and

(iii) in respect of any business of exporting any goods, being goods which were brought to Sri Lanka on a consignment basis, and re-exported without subjecting such goods to any process or manufacture, other than the repacking or labeling of such goods in the preparation to the market, *$ 6, 22 of 2011 w.e.f.1.04.2011*

in the course of carrying on or exercising such trade, business or vocation, if such profits and income (less any such amount expended by that company or partnership outside Sri Lanka as is considered by the Commissioner General to be reasonable expenses) are remitted to Sri Lanka through a bank ;

(bb) the profits and income earned in foreign currency by any manufacturer of textile, leather products, footwear or bags, from supplies made to any foreign buyer who has established his headquarters in Sri Lanka for management, finance, supply chain and billing; *$ 6, 22 of 2011 w.e.f.1.04.2011*

(bbb) the profits and income earned in foreign currency by any person for any year of assessment commencing on or after April 1, 2012, in respect of any business of procuring goods from one country or manufacturing goods in one country and exporting to another country, other than Sri Lanka; *S.5, 18 of 2013 w.e.f. 01.04.2013*

(c) the profits and income earned in foreign currency in any year of assessment ending on or before March 31, 2008, by any partnership in Sri Lanka or any individual from any services rendered in or outside Sri Lanka, to any person or partnership outside Sri Lanka, being services rendered in the course of any profession, carried on or exercised by such individual or partnership, if such profits and income (less such reasonable amount as may be determined by the Commissioner-General for personal expenses incurred outside Sri Lanka, where the services are rendered outside Sri Lanka by an individual) are remitted from outside Sri Lanka to such individual or partnership through a bank in Sri Lanka ; *$ 7, 9 of 2008*

(d) the profits and income earned in foreign currency in any year of assessment ending on or before March 31, 2008, by any *$ 7, 9 of 2008*

company resident in Sri Lanka from services rendered outside Sri Lanka, to any person or partnership outside Sri Lanka, in the course of carrying on or exercising any profession, if such profits and income are remitted to such company through a bank in Sri Lanka ;

(dd) the profits and income for any year of assessment earned in foreign currency by any resident company, a resident individual or any partnership from services rendered outside Sri Lanka in that year of assessment, in carrying out any construction project in the course of any trade, business or vocation, if such profits and income (less any such amount expended by that company, individual or partnership outside Sri Lanka as is considered by the Commissioner-General to be reasonable expenses) are remitted to Sri Lanka through a bank;

$ 6, 10 of 2007 w.e.f.30.03.2007

(ddd) the profits and income earned in foreign currency by any resident company, any resident individual or any partnership in Sri Lanka, from any service rendered in or outside Sri Lanka to any person or partnership outside Sri Lanka, other than any commission, discount or similar receipt for any such service rendered in Sri Lanka, if such profits and income (less such amount, if any, expended outside Sri Lanka as is considered by the Commissioner-General to be reasonable expenses) are remitted to Sri Lanka through a bank,

$ 7, 9 of 2008 w.e.f.01.04.2008

$ 6, 22 of 2011

(dddd) notwithstanding the provisions of paragraph (ddd) of this section, the profits and income for the period commencing from April 1, 2009 and ending on March 31, 2011, earned in foreign currency by any resident company, any resident individual or any partnership in Sri Lanka, from any service rendered in or outside Sri Lanka to any person or partnership outside Sri Lanka, if such profits and income (less such amount, if any, expended outside Sri Lanka as is considered by the Commissioner-General to be reasonable expenses) are remitted to Sri Lanka, through a bank;

$ 5,1 9 of 2009

(ddddd) any profits and income earned in foreign currency from outside Sri Lanka, by any resident individual who is a citizen of Sri Lanka, if such profits and income (less such amount, if any, expended outside Sri Lanka as is considered by the Commissioner-General to be reasonable expenses) are remitted to Sri Lanka through a bank;

S.5, 18 of 2013 w.e.f. 01.04.2013

(e) the income accruing to a person receiving instruction at any university, college, school or other educational establishment from a scholarship, exhibition, bursary, or similar educational endowment;

(f) any capital sum received by way of death gratuity or as compensation for death or injuries;

(g) wound and disability pensions granted to members or ex-members of the Forces of Her Majesty, the Queen of the United Kingdom;

(h) United States Government disability pensions;

(i) the profits and income within the meaning of paragraph (*a*) of section 3 arising to any person from the export of gold, gems or jewellery ;

(ii) the profits and income within the meaning of paragraph (a) of section 3, arising from the cutting and polishing of gems which are brought to Sri Lanka and exported after such cutting and polishing;

$ 7, 9 of 2008 w.e.f.01.04.2008

(j) such part of the profits and income arising from the sale for payment in foreign currency, of any gem or jewellery, being a sale made in Sri Lanka by any person authorized by the Central Bank of Sri Lanka to accept payment for such sale in foreign currency;

(k) any prize received by a person as an award made by the President of the Republic of Sri Lanka;

(l) any prize received by a person as an award made by the Government in recognition of an invention created, or any research undertaken, by such person;

(m) any sum received by a person from the President's Fund established by the President's Fund Act, No. 7 of 1978;

(n) any sum received by a person from the National Defence Fund established by the National Defence Fund Act, No. 9 of 1985;

(o) such part of any sum as does not exceed three thousand rupees paid by the Sri Lanka Bureau of Foreign Employment, established by the Sri Lanka Bureau of Foreign Employment Act, No. 21 of 1985, to any person or partnership licensed by such Bureau, to carry on the business of a foreign employment agency, in respect of any Sri Lankan for whom employment outside Sri Lanka has been provided or secured by such person or partnership;

(p) such part of any sum as does not exceed three thousand rupees received in any year of assessment by the Sri Lanka Bureau of Foreign Employment, established by the Sri Lanka Bureau of Foreign Employment Act, No. 21 of 1985, in respect of any Sri Lankan for whom employment outside Sri Lanka has been provided or secured by such Bureau;

(q) such part of any sum or the aggregate of sums as does not exceed one hundred thousand rupees received by any individual, as an award or awards in recognition of his excellence in the field of fine arts, literature or sports, being an award made with the prior written approval of the Minister in charge of the subject of fine arts, literature or sports, as the case may be;

(qq) one half of the profits and income of any person for any year of assessment commencing on or after April 1, 2009, derived from the sales or from any other means of any book written by him and whether published by himself or by any other person, for a period of one year commencing from the date of its first publication; *$ 5,19 of 2009*

(qqq) one half of the profits and income of any person for any year of assessment commencing on or after April 1, 2009, derived from the production of any drama, for a period of one year commencing from the date of its first public performance. *$ 5,1 9 of 2009*

For the purpose of this paragraph, "drama" means a theatrical presentation based on a text, either written, oral or otherwise, which through dramatic performance by actors on a stage or any other suitable space, conveys a story or any other narrative, for a collective public audience;

(qqqq) any export development rebate paid to an exporter by the Export Development Board, established by the Sri Lanka Export Development Act, No.40 of 1979, under the Export Development Reward Scheme; *$ 5,1 9 of 2009 w.e.f.21.10.2008*

(qqqqq) one half of the profits and income for any period on or after April 1, 2015 from the production of films or dramas of any individual who produces an award winning cinema or a drama at an international film or drama festival, for a period of five years of assessment commencing from the year in which such award is received; *[$ 6(1), 9 of 2015]*

(r) any interest or discount accruing to the "Sudu Nelum Movement", established by the Government and registered under section 114 of the Trust Ordinance, being interest or discount on any sum of money deposited by the Sudu Nelum Movement with any commercial bank;

(s) any profits and income within the meaning of paragraph (*a*) of section 3, derived by, arising from or accruing to any person from the sale of any bond, debenture or other debt instrument issued by a company and held by him, being a bond, debenture or other debt instrument which at the time of such sale is quoted in any official list published by any Stock Exchange, licensed by the Securities and Exchange Commission of Sri Lanka;

(*t*) any profits and income— *$ 6, 10 of 2007 w.e.f.30.03.2007*

(i) for the year of assessment commencing on April 1, 2006, derived by or accruing to any person or partnership other than any unit trust, mutual fund or venture capital company ; and

(ii) for any year of assessment commencing on or after April 1, 2007, derived by or accruing to any person or partnership, from the sale of any share; a right to any share, a bonus share or a share warrant in respect of which the share transaction levy under section 7 of the Finance Act, No, 5 of 2005, has been charged ;

(tt) the profits and income accruing to any person from the redemption of a unit of a Unit Trust or a Mutual Fund; *$ 5, 8 of 2012 w.e.f.01.04.2012*

(ttt) the profits and income arising or accruing to any Unit Trust from investments made on or after January 1, 2015 in US Dollar deposits or US Dollar denominated securities listed in any foreign stock exchange; *[$ 6(2), 9 of 2015]*

(u) the profits and income earned in any year of assessment in foreign currency by any National Association of Sports registered under the Sports Law, No. 25 of 1973, in respect of services rendered by such Association, or in the course of taking part in any sport within the meaning of the Sports Law, in that year of assessment outside Sri Lanka, if such profits and income (less such amount as the Commissioner – General considers to be reasonable expenses incurred outside Sri Lanka) are remitted by such Association to Sri Lanka ;

(v) the profits and income of any person or any partnership derived from the participation as a competitor, official or organizer of any sporting or athletic event held in Sri Lanka and at which competitor from outside Sri Lanka participates.

For the purpose of this paragraph :—

(i) "organizer" means anybody of persons, corporate or unincorporate, established in accordance with any law for the time being in force in the country represented at such event by such body of persons or by one or more individuals or one or more teams nominated by or with the concurrence of such body of persons, being a body of persons which governs the conduct of any sporting or athletic event in the country so represented, and includes anybody of persons the rules made by which, govern the conduct of such event ; and

(ii) "competitor" in relation to any sporting or athletic event, means any team which participates in any such event or any individual who participates in any such event either as an individual or as a member of such team ;

(vv) the profits and income of any individual who is not a citizen of Sri Lanka and who is brought to Sri Lanka as a trainer of any sport, being profits and income derived by such individual in the capacity of such trainer in Sri Lanka; *$ 5, 8 of 2012 w.e.f.01.04.2012*

(w) any annuity accruing in any year of assessment to any individual who reaches in that year of assessment or had reached in any previous year of assessment the age of sixty years, being an annuity for life or for a period of not less than ten years, purchased from any bank or any insurance company registered under the Regulation of Insurance Industry Act, No. 43 of 2000, and which accrues, in return for full consideration in money or moneys worth paid for the purchase of such annuity ;

(x) an amount equal to the interest payable to any bank in Sri Lanka, in respect of any loan granted to a company, the full amount of which is invested :— *$ 6, 10 of 2007 w.e.f.01.04.2006*

(i) in any new undertaking referred to in subsection (2) of section 20, where such company is a company referred to in that section ; and

(ii) in any relocated undertaking referred to in subsection (2) of section 21, where such company is a company referred to in that section;

(xx) An amount equal to the interest payable to any bank in Sri Lanka in respect of any loan granted, where the full amount of such loan is invested in any new undertaking referred to in section 24c; *$ 7, 9 of 2008 w.e.f.01.04.2008*

(xxx) an amount equal to the interest or the discount paid or allowed, as the case may be, to any nonresident person or to any licensed commercial bank in Sri Lanka, by the issuer of any sovereign bond denominated in foreign currency, issued on or after October 21, 2008 by or on behalf of the Government of Sri Lanka; *$ 5,19 of 2009*

(xxxx) an amount equal to the interest or the discount paid or allowed, as the case may be, to any person on or after April 1, 2009, on any Sri Lanka Development Bond denominated in United States Dollars, issued by the Central Bank of Sri Lanka; *$ 5,19 of 2009*

(xxxxx) the profits and income derived by or accruing to:- *$ 5,19 of 2009 w.e.f.01.04.2009*

(i) any nonresident person or any licensed commercial bank from the sale of any sovereign bond referred to in paragraph (xxx); or

(ii) any person from the sale on or after April 1, 2009, of any Sri Lanka Development Bond referred to in paragraph (xxxx);

(xxxxxx) (i) an amount equal to the interest payable to any bank or other financial institution in Sri Lanka, in respect of any loan granted out of the moneys lying into the credit of the Investment Fund account of such bank or institution, maintained and operated in accordance with the guidelines set by the Central Bank; or

$ 6, 22 of 2011 w.e.f.1.04.2011

(ii) an amount equal to the interest payable to any bank or other financial institution in Sri Lanka, in respect of any loan granted-

(A). to any company for investing in full in an undertaking referred to in section 16c;

$ 5, 8 of 2012 w.e.f.1.04.2012

(B) to any person or partnership for investing in full for the operation of re-opened abandoned factory.

In this paragraph "re-opened abandoned factory" means a factory which was engaged in the production or manufacture of any commodity or article but which had not been so engaged for an unbroken period of not less than three years, preceding November 22, 2010, and which commences the production or manufacture of such commodity or article or any other commodity or article in commercial quantities before April 1, 2012.

(xxxxxxx) any profits and income from any investment made on or after January 1, 2013 -

(i) in any Corporate Debt Security, quoted in any Stock Exchange licensed by the Securities and Exchange Commission;

S.5, 18 of 2013 w.e.f. 01.04.2013

(ii) in any Municipal Bond issued by any Municipal Council with the approval of the Secretary of the Ministry of Finance;

S.5, 18 of 2013 w.e.f. 01.04.2013

(xxxxxxxx) the interest earned by the DFCC Bank established by the Development Finance Corporation of Ceylon Act, No. 35 of 1955 and National Development Bank PLC incorporated under the Compaines Act, No. 7 of 2007, from moneys lent out of funds raised from outside Sri Lanka to Small and Medium enterprises, plantations, construction industry or other manufacturing industries.

S.5, 18 of 2013 w.e.f. 01.04.2013

(y) any royalty received by a non-resident person from a company with which an agreement has been entered into before April 1, 2004 by the Board of Investment of Sri Lanka under section 17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978, in respect of any period during which the profits and income of that company are exempt from income tax under the terms of that agreement :

Provided that where such company opts, in lieu of the exemption from income tax under the terms of such agreement, to be charged with income tax, the exemption from income tax granted by this paragraph shall apply to any royalty received by any non-resident person from such company in respect of the period during which the profits and income of such company would, but for such option, have been so exempt from income tax;

(yy) Any profits and income arising or accruing to any company, partnership or body of persons outside Sri Lanka, from any payment made in respect of the use on or after April 1, 2008, of any plant, machinery or equipment supplied by such company, partnership or body of persons to the Government of Sri Lanka, any public corporation, any Government Institution or to any other undertaking, for the use in any project approved by the Minister as being essential for the economic development of Sri Lanka; *$ 7, 9 of 2008*

(yyy) any profit or income from any song or other musical composition, derived by or accruing to the lyricist, the composer of the music or the singer, as the case may be, of such song or musical composition, on or after April, 1 2009; *$ 5,19 of 2009*

(yyyy) the profits and income arising or accruing to any person from any undertaking for the operation of any port terminal in Sri Lanka; *$ 6, 22 of 2011 w.e.f.31.04.2011*

(yyyyy) the profits and income from any service rendered by any person or partnership in any port in Sri Lanka in the course of any business carried on within such port; *$ 6, 22 of 2011 w.e.f.31.04.2011*

(yyyyyy) any royalty received in foreign currency by any person resident in Sri Lanka from outside Sri Lanka, if such royalty is remitted to Sri Lanka through a bank; *$ 5, 8 of 2012 w.e.f.1.04.2012*

(*yyyyyyy)* any royalty, franchising fee or any payment for designing received by any foreign collaborator from a company registered with the Board of Investment, during the period of tax holiday under section 17A or section 16D as the case may be, where the investment made in Sri Lanka from foreign direct investment raised outside Sri Lanka exceeds US $ 50 Million and if such services are considered by the Director General of the Board of Investment to be essential in carrying out activities in Sri Lanka and is not obtainable in Sri Lanka *S.5, 18 of 2013 w.e.f. 01.04.2013*

(*yyyyyyyy*) the profits and income of any person resident in Sri Lanka who acquires any internationally recognized intellectual property on or after April 1, 2014 and who earns profits and income by way of royalty out of such intellectual property, if such royalty is received in foreign currency and remitted to Sri Lanka through a bank; *[S 7(1) 8 of 2014] [w.e.f.01.04.2014]*

(yyyyyyyyy) the profits and income arising or accruing to any company, partnership or body of persons outside Sri Lanka for any year of assessment commencing on or after April 1, 2015, from any payment made by way of royalty as a specific requirement of any information technology or business process outsourcing company in Sri Lanka, for the year of assessment in which such company in Sri Lanka commences such operations and for another year of assessment immediately succeeding that year of assessment;" *[$ 6(3), 9 of 2015]*

(*z*) any winning from a lottery, the gross amount of which does not exceed five hundred thousand rupees;

(zz) The profits and income of any individual who is not a citizen of Sri Lanka and who is employed in Sri Lanka in any undertaking, being profits and income arising or derived from outside Sri Lanka during the period commencing from April 1, 2008, and ending on the date of cessation of such employment; *$ 7, 9 of 2008*

(zzz) The profits and income within the meaning of paragraph (a) of section 3, of any undertaking for the construction and sale of houses for low income families under a scheme approved by the Urban Development Authority or the National Housing Authority, being houses the floor area of which does not exceed five hundred square feet, if the sale of any such house takes place before April 1, 2013; *$ 7, 9 of 2008*

(zzzz) the profits and income derived by or accruing to any person or partnership from investment in Economic Resurgence Certificates, utilizing money lying to credit of any account referred to in paragraph *(d)* of section 9 of this Act, from and out of monies deposited in such account on or after February 1, 2009; *$ 5,19 of 2009 w.e.f.01.02.2009*

Provided that where investment in Economic Resurgence Certificates is made by utilizing money partly from money deposited on or after February 1, 2009 and partly from money which was already lying to the credit of the account as of that date, the exemption from income tax granted by this paragraph shall apply only to such part of the profits and income which is attributable to the money out of the deposits made on or after February 1, 2009.

(zzzzz) the profits and income arising or accruing to any person from any undertaking for the construction of any Port in Sri Lanka. *$ 6, 22 of 2011 w.e.f.31.04.2011*

(zzzzzz) the profits and income arising or accruing to any person from the administration of any sports ground, stadium or sports complex. *$ 5, 8 of 2012 w.e.f.1.04.2012*

(zzzzzzz) where an individual who is a citizen of Sri Lanka, *S.5, 18 of 2013 w.e.f. 01.04.2013*

employed abroad returns to the country on or after January 1, 2013 and invests his earnings from employment abroad to commence any business of manufacture of any article, other than liquor or tobacco products, or provision of any service, the profits and income of such person from such business for a period of five years commencing from the beginning of the year of assessment in which the commercial operations of such business commenced.

(zzzzzzzz) the profits and income arising or accruing to any company, partnership or body of persons in a country outside Sri Lanka, from any payment made for the use of any computer software, by Sri Lankan Air Lines Ltd or Mihin Lanka (Pvt) Ltd, as a special requirement of such Airlines, if a Double Taxation Avoidance Agreement providing relief for double taxation of such profits and income is not in force between Sri Lanka and that country
or tax is not payable in such country on such profits and income. *[S 7(2) 8 of 2014] [w.e.f.01.04.2014]*

14. (1) The profits and income of any resident guest– Exemption of certain profits and income of any resident guest.

(a) not being profits and income arising in or, derived from Sri Lanka; and

(b) accruing from moneys lying to his credit in any account opened by him in a commercial bank, for the deposit of sums remitted to him in foreign currency from any country outside Sri Lanka,

shall be exempt from income tax.

(2) For the purpose of this section "resident guest" means a person to whom a tax exemption has been granted under the Resident Guest (Tax Exemption) Act, No. 6 of 1979.

15. Notwithstanding anything to the contrary in any other provision of this Act, the profits and income derived from outside Sri Lanka by any individual who has been a non-resident of Sri Lanka and who arrives and stays in Sri Lanka, shall be exempt from income tax- Exemptions of profits and income derived from outside Sri Lanka.

(i) for any year of assessment commencing prior to April 1, 2013, if such individual is a citizen of both Sri Lanka and any other country; *S.6, 18 of 2013 w.e.f. 01.04.2013*

(ii) for any year of assessment commencing on or after April 1, 2013, if such individual is a citizen of Sri Lanka and—

(a) citizen of any other country; or

(b) has obtained permanent resident status or similar status in any other country under which such individual may obtain citizenship in such country,

at the time of such arrival and during the whole of such stay.

16. (1) The profits and income within the meaning of paragraph (*a*) of section 3, other than any profits and income from the disposal of any capital asset, of any person or partnership from any agricultural undertaking carried on in Sri Lanka, shall be exempt from income tax for each year of assessment within the period of five years, commencing on April 1, 2006.

Exemption from income tax of profits and income from agricultural undertaking.
$ 7, 10 of 2007

(2) In this section "agricultural undertaking" means—

(*a*) an undertaking for the purpose of the production of any agricultural, horticultural or any dairy produce ;

(*b*) an undertaking for the cleaning, sizing, sorting, grading, chilling, dehydrating, packaging, cutting, canning for the purpose of changing the form, contour or physical appearance of any produce referred to in paragraph (*a*), in preparation of such produce for the market; or

$ 6,19 of 2009

(*c*) any undertaking for the conversion of any produce referred to in paragraph (*a*) into such product as may be specified by the Commissioner-General, by Order published in the Gazette.

(3) In relation to an undertaking which consists of the production of any agricultural, horticultural or dairy produce and utilizing such produce to manufacture any product (other than any product specified under paragraph *(c)* of subsection (2)), such produce shall be deemed to have been sold for the manufacturer of such product at the open market price prevailing at the time of such deemed sale, and the exemption granted under subsection (1) shall be applicable to that undertaking, on the profits and income computed on the basis of such deemed sale.

$ 6,19 of 2009 w.e.f.01.04.2009

16 A (1) The profits and income within the meaning of paragraph *(a)* of section 3, other than any profits and income from the disposal of any capital asset, of any person or partnership from any undertaking for fishing carried on in Sri Lanka, shall be exempted from income tax for each year of assessment within the period of five years commencing on April 1, 2011.

Exemption from income tax of the profits and income of any undertaking for fishing.
$ 7,22 of 2011 w.e.f.01.04.2011

(2) In this section "undertaking for fishing" includes any undertaking for the cleaning, sizing, sorting, grading, chilling, dehydrating, packaging, cutting or canning of fish in preparation of such produce for the market.

(3) In relation to an undertaking which consists of fishing and utilizing such fish for manufacturing of any product, such fish shall be deemed to have been sold for the manufacture of such product at the open market price prevailing at the time of such deemed sale, and the exemption granted under subsection (1) shall be applicable to that undertaking, on the profits and income computed on the basis of such deemed sale.

16 B

(1) The profits and income within the meaning of paragraph *(a)* of section 3, other than any profits and income from the disposal of any capital asset, of any person or partnership from any undertaking for producing of agricultural seeds or planting materials, or primary processing of such seeds or materials, shall be exempted from income tax for each year of assessment within the period of five years, commencing on April 1, 2011.

Exemption from income tax of the profits and income of any undertaking for producing agricultural seeds or planting materials.

$ 7,22 of 2011
w.e.f.01.04.2011

(2) In this section "primary processing" means cleaning, sizing, sorting, grading, chilling, dehydrating, cutting, canning or packaging for the purpose of preparation of such produce for the market.

(3) In relation to an undertaking which consists of producing of agricultural seeds or planting materials and utilizing such seeds or materials in the agriculture or horticulture, such produce shall be deemed to have been sold for such purpose at the open market price prevailing at the time of such deemed sale, and the exemption granted under subsection (1) shall be applicable to that undertaking, on the profits and income computed on the basis of such deemed sale.

16C

(1) The profits and income within the meaning of paragraph *(a)* of section 3 (other than any profits and income from the sale of any capital asset) of any new undertaking referred to in subsection (2), and carried on by any person or partnership on or after April 1, 2011, shall be exempt from income tax for the period specified in Column III as corresponding to the investment specified in Column II and the types of activities specified in Column I of the Schedule hereto reckoned from, the commencement of the year of assessment in which such undertaking commences to make profits from transactions entered into 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, whichever occurs earlier.

Exemption from income tax of the profits and income of any new undertaking investing not less than fifty million rupees.
$ 7,22 of 2011
w.e.f.01.04.2011
$ 6, 8 of 2012
w.e.f.1.04.2011

$ 6, 8 of 2012
w.e.f.1.04.2011

SCHEDULE

Column I (Activities)	Column II (Amount of investment – in Rupees)	Column III (Period of exemption)
Agriculture, animal husbandry or fishing (including processing), creative work including work of an artist, Information Technology	Not less than 25 Million, but **less** than 50 million	4 years
Any activity referred to in paragraph (*a*) of subsection (2). In case of manufacture of any article, such article shall be with a minimum of 35% value addition, if more than 50% of the production is to be sold in the domestic market.	Not less than 50 Million, but **less** than 100 million	4 years
	Not less than **100 million**, but **less** than 200 million	5 years
	Not less than 200 million	6 years

(2) For the purposes of subsection (1), "new undertaking" means an undertaking – *$ 6, 8 of 2012 w.e.f.1.04.2011*

(a) which is engaged in –

(i) agriculture, animal husbandry or fishing;

(ii) the manufacture of any article (including the processing of such article), other than any liquor or any tobacco product;

(iii) the provision of services of Information Technology;

(iv) software development;

(v) business process outsourcing;

(vi) knowledge process outsourcing;

(vii) the provision of healthcare services;

(viii) the provision of educational services;

(ix) the provision of beauty care services;

(x) the provision of cold room and storage facilities;

(xi) tourism;

(xii) fitness centre services or providing facilities for sports;

(xiii) creative work including work of an artist;

(xiv) mini hydro power projects;

(b) in which the sum invested in the acquisition of fixed assets after March 31, 2011 but prior to April 1, 2015 is not less than the corresponding sum specified in Column II of the Schedule to subsection (1);

(c) which commences commercial operations on or after April 1, 2011; and

(d) which is not formed by the splitting up or reconstruction or acquisition of any business which was previously in existence.

S.7, 18 of 2013 w.e.f. 01.04.2013

For the purposes of this section "the amount of investment" means the cost of any land, plant, machinery, equipment and other fixed assets.

16D The profits and income within the meaning of paragraph (*a*) of section 3(other than any profits and income from the sale of any capital asset) of any new undertaking established on or after April 1, 2012, but prior to April 1, 2015 and engaged in the manufacture of any of the products referred to in Column I of the Schedule hereto with an amount not less than the corresponding minimum investment referred to in Column II thereof, shall be exempt from income tax for a period of five years reckoned from the commencement of the year of assessment in which such undertaking commences to make profits from transactions entered into in that year of assessment or from the commencement of the year of assessment immediately succeeding the year of assessment in which such undertaking completes a period of two years from the date on which such undertaking commences to carry on commercial operations; whichever occurs earlier where such undertaking is not formed by the splitting up or reconstruction or acquisition of any business which was previously in existence.

Exemption for five years,of profits and income of strategic import replacement undertakings engaged in the manufacture of specified products.

$ 7, 8 of 2012 w.e.f.1.04.2012

S.8, 18 of 2013 w.e.f. 01.04.2013 S.8, 8 of 2014

Section 16D of the principal enactment as last

For the purposes of this section "the investment" means the cost of any land, plant, machinery, equipment and other fixed assets.

SCHEDULE

Column I (Product)	Column II (Minimum Investment in USD Million)
Fabric	5
Pharmaceutical	10
Milk Powder	30
Cement	50

16E The profits and income within the meaning of paragraph (*a*) of section 3 (other than any profits and income from the disposal of any capital asset) of any person or partnership-

Exemption of profits and income from cultivation of any renewable energy crops and transactions connected with manufacturing, distribution and marketing of organic fertilizer

S.9, 18 of 2013 w.e.f. 01.04.2013 S.9, 8 of 2014 w.e.f 1.4.2014

(a) from any undertaking of cultivating any renewable energy crop in Sri Lanka, for a period of ten years;

from all transactions connected with manufacturing, distribution and marketing of organic fertilizers or biological fertilizers ,commencing on or after April 1, 2013, shall be exempt from income tax.

17. (1) The profits and income within the meaning of paragraph *(a)* of section 3 (other than any profits and income from the sale of capital assets) of any company from any specified undertaking referred to in subsection (2), and

carried on by such company on or after April 1, 2006, shall be exempt from income tax for a period of five years reckoned from the commencement of the year of assessment in which the undertaking commences to make profits from transactions entered into 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, whichever occurs earlier:

Exemption from income tax of the profits and income of any company from any specified undertaking.

$ 8, 10 of 2007

$ 8, 9 of 2008

Provided that where the period for which the profits and income are exempt from income tax commences after March 31, 2008, the period for which such profits and income are exempt, shall be three years.

(2) For the purposes of subsection (1) "specified undertaking" means —

(*a*) an undertaking carried on by a company –

(i) incorporated before April 1, 2002, with a minimum investment of rupees fifty million invested in such undertaking ; or

(ii) incorporated on or after April 1, 2002, but prior to April 1, 2011, with a minimum investment of rupees ten million invested not later than March 31, 2012, in such undertaking,

$ 8, 10 of 2007 $ 8,22 of 2011 w.e.f.01.04.2011 $ 8, 8 of 2012 w.e.f.1.04.2012

and which is engaged in agriculture, agro processing, industrial and machine tool manufacturing, machinery

manufacturing, electronics, export of non-traditional products, or information technology and allied services;

(b) any designated project carried on by a company which qualify under the same investment criteria and incorporated prior to April 1, 2002 as referred to in sub paragraph (i) of paragraph (a) of this subsection and which conforms to the prescribed guidelines ; and *$ 8, 8 of 2012 w.e.f.1.04.2012*

(*c*) an undertaking of a pioneering nature as determined by the Minister by Order published in the *Gazette* not later than March 31, 2012, carried on by a company with an investment in excess of rupees two hundred and fifty million. *$ 8, 8 of 2012*

(3) (*a*) Notwithstanding the provisions of sub section (1), for any company having an investment not less than rupees one thousand million in any pioneering undertaking as determined by the Minister, the period of exemption shall be the corresponding period referred to in Column II below, provided the corresponding minimum investment as given in Column I has been made—

Column I	*Column II*
(Rs. Million)	*(Years)*
1000 - 2499	08
2500 and above	10

(*b*) The amount of investment referred to in paragraph (*b*) of subsection (2), shall not be applicable to any Export Production Village Company ;

(*c*) In case of a company receiving income from any other trade or business in addition to the income from any specified undertaking referred to in subsection (2), the exemption provided under this section shall be applicable only in respect of the profits and income from the relevant specified undertaking as referred to in that subsection.

(4) For the purposes of this section —

(*a*) "agriculture" means the cultivation of land with plants of any description, rearing of fish or animal husbandry, including poultry farms, veterinary and artificial insemination services and other support services ;

(*b*) "agro processing" means the processing of any agricultural product or fishing product including deep sea fishing, but excludes the processing of black tea in bulk and the manufacture of liquor ;

(*c*) "non-traditional products" means any goods (other than black tea not in packet or package form and each packet or package weighing not more than one kilogram, crepe rubber, sheet rubber, scrap rubber, latex and fresh coconuts), including deemed export of such goods, where not less than eighty *per centum* of the total turnover of such undertaking is from export or deemed export of such non traditional goods, for any year of assessment; *$7,19 of 2009 w.e.f.01.04.2009*

(*d*) "deemed export" means the production or manufacture and supply by any person or partnership, of any commodity (other than black tea not in packet or package form and each packet or package weighing not more than one kilogram crepe rubber, sheet rubber, scrap rubber, latex and fresh coconuts) to any exporter of such goods without further production or manufacture by such exporter or the production or manufacture and supply of any goods to any exporter for the production, manufacture or packaging for export of any commodity which is a nontraditional product. *$ 7,19 of 2009 w.e.f.01.04.2009*

17A. (1) The profits and income within the meaning of paragraph (*a*) of section 3 (other than any profits and income from the sale of any capital asset) of any company from any new undertaking referred to in subsection (2), and carried on by such company on or after April 1, 2011, shall be exempt from income tax for the period specified in Column II of the Schedule hereto as corresponding to the investment specified in Column I of that Schedule, reckoned from the commencement of the year of assessment in which such undertaking commences to make profits from transactions entered into in that year of assessment or from the commencement of the year of assessment immediately succeeding the year of assessment in which such undertaking completes a period of two years reckoned from the date on which such undertaking commences to carry on commercial operations, whichever occurs earlier:

Exemption from income tax of the profits and income from any new undertaking engaged in any specified activities. *$ 9, 8 of 2012 w.e.f.1.04.2011*

$ 9,22 of 2011 w.e.f.01.04.2011

$ 9, 8 of 2012 w.e.f.1.04.2011

SCHEDULE

Column I	***Column II***
(Investment in Rupees Million)	***(Exemption period)***
*More than **300** and not more than 500*	*6 years*
More than 500 and not more than 700	*7 years*
More than 700 and not more than 1,000	*8 years*
More than 1,000 and not more than 1,500	*9 years*
More than 1,500 and not more than 2,500	*10 years*
More than 2,500	*12 years*

(2) For the purposes of subsection (1), "new undertaking" means any undertaking— *$ 9, 8 of 2012 w.e.f.1.04.2011*

(a) which is engaged in any of the activities specified below:-

(i). manufacture of boats, pharmaceuticals, tyres and tubes, motor spare parts, furniture, ceramics, glass ware or other mineral based products, rubber based products, cosmetic products, edible products manufactured out of locally cultivated agricultural products, construction materials or electrical or electronic goods;

(ii). manufacture, production or processing of non-traditional goods for export, including deemed exports which shall constitute not less than ninety per centum of the total production and in the case of apparels and textile, seventy five per centum of the total production ; *S.9, 18 of 2013 w.e.f. 01.04.2013*

(iii). cultivation of food crops or industrial crops;

(i). (iv). horticulture;

(ii). (v). forestry;

(iii). (vi). animal husbandry in relation to dairy, poultry, swine, goat etc;

(vii). provision of services to a person or partnership outside Sri Lanka, for payment where the total amount of such payment shall not be less than seventy per centum in convertible foreign currency;

(viii). tourism or tourism related projects;

(ix). hotels, guest houses or similar services;

(x). infrastructure projects including construction of commercial buildings;

(xi). development of any warehousing or storage facility;

(xii). power generation using renewable resources;

(xiii). establishment of industrial estates, special economic zones or knowledge cities;

(xiv). urban housing or town centre development;

(xv). provision of any sanitation facility or waste management systems;

(xvi). development of water services;

(xvii). development of internal water ways, or related transport (goods or passengers);

(xviii). construction of hospitals and provision of health care services;

(xix). repair of aircrafts or maritime vessels or ship breaking;

(xx). sporting services (e.g. motor racing or golf course);

(xxi). information technology;

(xxii). software development;

(xxiii). business or knowledge process outsourcing;

(xxiv). any project in light or heavy engineering industry;

(xxv). artificial insemination for cattle (dairy development);

(xxvi). provision of educational services; or

(xxvii). any other activity, as may be prescribed by the Minister taking into consideration the development of national economy ;

(b) in which the sum invested in the acquisition of fixed assets after March 31, 2011 but prior to April 1, 2015 is not less than the corresponding sum specified in Column I of the Schedule to subsection (1); *S.10, 18 of 2013 w.e.f. 01.04.2013* *S.10, 8 of 2014*

(c) which commences commercial operations on or after April 1, 2011, but prior to April 1, 2016; and *S.10, 8 of 2014*

(d) which is not formed by the splitting up or reconstruction or acquisition of any business which was previously in existence. *S.10, 8 of 2014*

For the purpose of this section "the investment" means the cost of any land, plant, machinery, equipment and other fixed assets.

18. (1) The profits and income within the meaning of paragraph (*a*) of section 3 (other than any profits and income from the sale of capital assets) of any company from any specified undertaking referred to in subsection (2), shall be exempt from income tax for a period not less than six years but not more than twelve years commencing from not later than March 31, 2009, as may be determined by the Minister by Order published in the *Gazette*, if the amount of the investment made by such company in such undertaking is not less than one thousand million rupees. Such period shall be reckoned, from commencement of the year of assessment in which the undertaking commences to make profits or any year of assessment not later than two years reckoned from the date on which the undertaking commences to carry on commercial operations, whichever is earlier. Exemption from income tax of certain undertakings for infrastructure development. *$ 9, 9 of 2008*

(2) For the purposes of subsection (1) "specified undertaking" in relation to a company means an undertaking carried on by such company and which is engaged in any such activity relating to infrastructure development as may be determined by the Minister by Order published in the *Gazette*, having regard to the interests of the national economy.

19. (1) The profits and income within the meaning of paragraph (a) of section 3 (other than any profits and income from the sale of capital assets) of any company from any specified undertaking referred to in subsection (2), shall be exempt from income tax for a period of five years, reckoned from the year of assessment in Exemption from income tax of small scale infrastructure undertakings.

which the undertaking commences to make profits from transactions entered into 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, whichever occurs earlier:

$ 10, 9 of 2008 w.e.f.29.02.2008

Provided that where the period for which the profits and income are exempt from income tax commences after April 1, 2008, the period for which such profits and income are exempt, shall be three years.

(2) For the purpose of subsection (1) "specified undertaking" in relation to a company means an undertaking carried on by such company and which is engaged in infrastructure development for the generation of power, tourism, recreation, warehousing and cold storage, garbage collection or disposal, construction of houses or construction of hospitals, and the total amount invested within one year from the commencement of the undertaking, but not later than March 31, 2012 is not less than ten million rupees but not exceeding fifty million rupees.

$ 10, 8 of 2012

20. (1) The profits and income within the meaning of paragraph (*a*) of section 3, (other than any profits and income from the sale of any capital asset,) of any company, form any new undertaking referred to in subsection (2), shall be exempt from income tax for every year of assessment falling within the period determined in accordance with subsection (3) and subsection (4).

Exemption of the profit and income of any new industrial undertaking.

(2) For the purpose of subsection (1), a "new undertaking" in relation to any company and to any year of assessment, means an undertaking—

(*a*) carried on by such company ;

(*b*) located in any area outside the administrative districts of Colombo and Gampaha and specified in part A or Part B of the Second Schedule to this section;

(*c*) in which the sum invested before April 1, 2010-

$ 11, 9 of 2008 [$ 10,22 of 2011 w.e.f.01.04.2009]

(i) in any plant, machinery, furniture, building or land used in such undertaking, where such undertaking is an agricultural undertaking; or

(ii) in any plant, machinery, furniture or building used in such undertaking, where such undertaking is an undertaking other than an agricultural undertaking,

is not less than thirty million rupees ;

(*d*) not formed by the splitting up or reconstruction or acquisition of any undertaking which was previously in existence ;

(*e*) in which the number of employees employed at any time prior to April 1, 2010 and thereafter throughout that year of assessment, is not less than– *$ 11, 9 of 2008 [$ 10,22 of 2011 w.e.f.01.04.2009]*

(i) fifty, where such undertaking is an undertaking for the provision of information technology enabling services or printing on paper or the manufacture of any packing materials ; or

(ii) two hundred, where such undertaking is an undertaking other than an undertaking referred to in subparagraph (i).

(3) Where the sum invested in accordance with paragraph (*c*) of subsection (2) falls within the range specified in any entry in Column I of the First Schedule hereto, the period for which the profits and income are exempt from income tax, shall be the period specified in the corresponding entry —

(*a*) in sub Column A of Column II, where the undertaking referred to in that subsection is located within any administrative district referred to in Part A of the Second Schedule hereto ; and

(b) in sub Column B of Column II, where the undertaking referred to in that subsection is located within any administrative district referred to in Part B of the Second Schedule hereto.

FIRST SCHEDULE

Column I	***Column I***	
Sum invested in rupees million	Period in years	
	Sub Column A	*Sub Column B*
More than 30 but not more than 50	5	7
More than 50 but not more than 100	6	8
More than 100	8	10

SECOND SCHEDULE

Part A	*Part B*
Any administrative district, part of the boundary of which overlaps with part of the boundary of the administrative district of Colombo or of Gampaha.	Any administrative district other than – – any administrative district specified in part A and – administrative districts of Colombo and Gampaha

(4) The period specified in each entry in sub-Column A or sub-Column B of Column II of the First Schedule to subsection (3), shall commence from the commencement of the year of assessment —

(*a*) in which the new undertaking referred to in subsection (1) commences to make profits from the transactions entered into in that year of assessment ; or

(*b*) which occurs not later than three years reckoned from the commencement of the year of assessment in which such undertaking commences commercial operations,

whichever occurs earlier.

21. (1) The profits and income, within the meaning of paragraph (*a*) of section 3, (other than any profits and income from the sale of any capital asset) of any company, from any relocated undertaking referred to in subsection (2), shall be exempt from income tax for each year of assessment within the period of five years determined in accordance with subsection (3).

Exemption of profits and income of any relocated undertaking.

(2) For the purposes of subsection (1), a "relocated undertaking" in relation to any company and to any year of assessment referred to in subsection (1), means an undertaking–

(*a*) which prior to November 1, 2005, was being carried on by that company in a location within the administrative district of Colombo or of Gampaha, with not less than one hundred individuals employed therein ;

(*b*) which is relocated in any location outside the administrative districts of Colombo and Gampaha and commencing from a date not later than March 31, 2010, continues :-

$ 12, 9 of 2008 [$ 11,22 of 2011 w.e.f.01.04.2009]

(i) to carry its commercial operations ; and
(ii) to employ such number of individuals as is not less than the number employed as at November 1, 2005,

throughout that year of assessment ; and

(*c*) in respect of which the expenditure incurred in the relocation, is not less than one hundred million rupees.

(3) The period of five years referred to in subsection (1), shall commence from the commencement of the year of assessment in which the relocated undertaking commences commercial operations.

21.A (1) The profits and income within the meaning of paragraph (a) of section 3 (other than any profits and income from the sale of any

Exemption of profits and income of undertakings

capital asset) of any company, from any relocated undertaking referred to in subsection (2), shall be exempt from income tax for each year of assessment within a period of five years, commencing on April 1, 2009.

relocated from certain districts.

$ 13, 9 of 2008 w.e.f.29.02.2008

(2) For the purpose of subsection (1), a "relocated undertaking" in relation to any company and to any year of assessment referred to in subsection (1), means an undertaking –

(a) which prior to November 1, 2007, was being carried on by that company in any location within the administrative district of Colombo or Gampaha, with not less than one hundred individuals employed therein;

[$ 12,22 of 2011 w.e.f.01.04.2009]

(b) which is relocated in any location outside the administrative district of Colombo and Gampaha and commencing from a date not later than March 31, 2010, continues to –

(i) Carry on commercial operations: and

(ii) employ such number of individuals as is not less than the number employed as at November 1, 2007,

throughout that year of assessment;

(c) In respect of which the expenditure incurred in the relocation is not less than one hundred million rupees:

(d) of which the profits and income within the meaning of paragraph *(a)* of section 3 (other than any profits and income from the sale of any capital asset) are exempt from income tax under any other provision of this Act or under any agreement entered into with the Board of Investment of Sri Lanka under section 17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978, for a period extending beyond April 1, 2009.

22. (1) The profits and income within the meaning of paragraph (*a*) of section 3 (other than any profits and income from the sale of capital assets) of any new undertaking of a company which is engaged solely in research and development, with an investment of not less than two million rupees, made within one year from the commencement of such undertaking, but prior to April 1, 2014, shall be exempt from income tax for a period of five years, reckoned from the year of assessment in which the undertaking commences to make profits from transactions entered into 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, whichever occurs earlier:

Exemption from income tax of any company engaged in research and development.

$ 14, 9 of 2008 w.e.f.29.02.2008 S 11 of 8 of 2014

Provided that where the period for which the profits and income are exempt from income tax commences after April 1, 2008, the period for which such profits and income are exempt, shall be three years.

(2) For the purpose subsection (1) "research and development" means any systematic or intensive study carried out in the field of science or technology with the object of using the results thereof for the production or improvement of materials, devices, products, produce or process (other than quality control of products or routine testing materials, devices, research in social science or humanities, routine data collection, efficiency surveys or management studies and market research or sales promotion).

23. (1) The profits and income within the meaning of paragraph (*a*) of section 3 (other than profits and income from the sale of any capital asset within the meaning of paragraph (*b*) of subsection (7) of section 25) of any venture capital company, derived from any specified investment in any project referred to in paragraph (a), (b) or (c) hereafter, shall be exempt from income tax, for a period of five years commencing from the year of assessment in which the company commences to carry on commercial operations, where such company invests a sum of money as specified in subsection (2), which investment shall be identified as a specific investment, for the purchase of ordinary shares in a company engaged in—

Exemption from income tax of any venture capital company.

$ 15, 9 of 2008 w.e.f.01.04.2006

(*a*) a project which is of a pioneering nature and the operation of which results in value addition and the promotion of economic development;

(*b*) a project which is engaged in the business of information technology;

(*c*) any other project as may be specified by the Minister by Order published in the *Gazette*,

and such investment shall be for the financing of seed capital or start up or early stage financing of the investee company :

Provided however–

(i) the venture capital company shall not have commenced commercial operations prior to April 1, 2003; and

(ii) the specific investment shall not be made in relation to a company which is at the time of making the first investment, an associate company.

Provided further that, where the venture capital company commences commercial operations on or after April 1, 2008, the period for which the profits and income are exempt from income tax, shall be three years. *$ 15, 9 of 2008 w.e.f.29.02.2008*

Provided further that where any venture capital company had not made any investment prior to April 1, 2011 for the purchase of ordinary shares in any project referred to in paragraph (*a*), (*b*) or (*c*) of this subsection, such company shall not be entitled to any tax exemption under this section. *[$ 13,22 of 2011 w.e.f.01.04.2011]*

(2) In order to qualify for the tax exemption provided for in subsection (1), the venture capital company shall have invested a sum–

(*a*) not less than forty *per centum* of the total equity capital of such company, during the second year from the year in which such company commenced its commercial operations, on or before the end of that second year;

(*b*) not less than eighty *per centum* of the total equity capital of such company, during the third year from the year in which such company commenced its commercial operations, on or before the end of that third year;

(*c*) not less than eighty *per centum* of the total equity capital of such company, during the fourth and fifth years from the year of commencement of commercial operations, on or before the end of such fourth and fifth years respectively,

in any project specified in subsection (1) :

Provided that if a company which has claimed exemption under this section fails to comply with the provisions of this subsection, or any dividends have been declared during the first two years from the year of assessment in which the company commences to carry commercial operations or more than twenty *per centum* of the total specific investment made in any year has been made in one or more associate companies of such venture capital company, the exemption afforded to such company shall be withdrawn and the assessment shall be issued for the relevant years.

(3) Investment may be made in foreign companies, and such investments shall be considered as a specific investment for the purpose of this section in the second year and thereafter, where such investment is not more than ten *per centum* of equity capital of such company during the second year and not more than twenty *per centum* of equity capital of such company

during the third year and subsequent years respectively, from the year in which such company commences its commercial operations.

(4) During the first three years including the year in which such company commences its commercial operations, any equity capital in excess of the minimum investments required by subsection (2) may be invested in Government Securities and such investment shall be considered as a specific investment.

(5) The year of commencement of commercial operations for the purpose of this section, shall be the year in which the issued equity capital of the venture capital company has reached one hundred million rupees and shall not apply in respect of commercial operations commencing on or after April 1, 2008.

(6) For the purposes of this section :—

"associate company" means any company within a group of companies which includes a parent company and all its subsidiaries where the parent company has one or more subsidiaries and such subsidiaries are controlled by the parent company either by appointing a majority of the Board of Directors of such subsidiary or by holding more than one half in nominal value of the equity share capital of such subsidiary ;

"venture capital company" means any company registered under the Companies Act, No. 7 of 2007 with a minimum issued share capital of rupees one hundred million and which is engaged in the business of providing equity investment in relation to any project as is specified in subsections (1), (2), (3) and (4), and– *$ 11, 8 of 2012 w.e.f.01.04.2012*

(*a*) which has entered into a Technical Service Agreement with a management company possessing the required experience in the relevant area of investment; or

(*b*) which has in its employment, professional staff who have been trained by foreign venture capital companies and other local staff possessing the required professional venture capital management experience.

24. (1) The profits and income within the meaning of paragraph (*a*) of section (3)(other than any profits and income from the sale of capital assets) of any person engaged in business as specified in subsection (2), shall be exempt from income tax for a period of three years commencing from the year of assessment in which such business commences to make profits from transactions entered into in that year of assessment or from the commencement of the year of assessment immediately succeeding the year of assessment in which such business completes a period of two years reckoned from the date on which the business commences to carry on commercial

Exemption from income tax of any person engaged in the business of providing Manor Houses or Thematic Bungalows to tourists.

operations, whichever earlier.

$ 16, 9 of 2008

(2) The provisions of subsection (1) shall apply in respect of any business of providing accommodation to tourists in Manor Houses or Thematic Bungalows, carried on by a person registered on or after April 1, 2003 with the Ceylon Tourist Board and for a period of ten years from the date of such registration.

24A. (1) The profits and income within the meaning of paragraph (*a*) of section 3, (other than any profits and income from the disposal of any capital asset) from the exhibition on or after April 1, 2007 of any cinematographic film in any new cinema or any upgraded cinema referred to in subsection (3), shall be exempt from income tax for a period of :—

Exemption from income tax of the profits and income from any new or upgraded cinema.

(a) ten years, where the cinema is a new cinema ; or

$ 9, 10 of 2007

(b) seven years, where the cinema is an upgraded cinema.

$ 8,19 of 2009

(2) The period of ten years or the period of seven years, as the case may be, referred to in subsection (1) shall, in relation to any cinema, commence from the commencement of the year of assessment in which the exhibition of cinematographic films in such new cinema or upgraded cinema, as the case may be, commenced.

$ 8,19 of 2009 w.e.f.01.04.2009

(3) For the purposes of this section :—

(a) "new cinema" means a cinema—

(i) in which the exhibition of cinematographic films commences on or after April 1, 2007 ; and

(ii) which is 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 and Digital Theatre Systems and Dolby Sound Systems ; and

(b) "upgraded cinema" means a cinema—

(i) in which the exhibition of cinematographic films had commenced prior to April 1, 2007 ;

(ii) which was not equipped with digital technology and Digital Theatre Systems and Dolby Sound Systems prior to April 1, 2007 ; and

(iii) which is 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 on or after April 1, 2007, with digital technology and Digital Theatre Systems and Dolby Sound Systems.

24B. (1) The profits and income within the meaning of paragraph *(a)* of section 3, (other than any profits from the disposal of any capital asset) of any person from the operation of any reopened abandoned factory referred to in subsection (2), shall be exempt from income tax for the period ending on March 31, 2011.

Exemption from income tax of the profits and income from the operation of any reopened abandoned factory.

$ 9, 10 of 2007

(2) For the purpose of subsection (1), "reopened abandoned factory" means a factory which :—

(a) was engaged in the production or manufacture of any commodity or article but which had not been so engaged for an unbroken period of not less than three years, preceding November 16, 2006;
and

(b) commences to produce or manufacture such commodity or article or any other commodity or article in commercial quantities before April 1, 2008.

24C. (1) The profits and income within the meaning of paragraph *(a)* of section 3 (other than any profits and income from the disposal of any capital asset) from the operation of any new undertaking referred to in subsection (2), shall be exempt from income tax for a period of five years commencing from the year of assessment in which such undertaking commences to make profits from transactions entered into in that year of assessment or from the commencement of the year of assessment immediately succeeding the year of assessment in which such undertaking completes two years reckoned from the date on which the undertaking commences to carry on commercial operations, whichever occurs earlier.

Exemption from income tax of the profits and income of any new undertakings located within the Eastern Province.

$ 17, 9 of 2008

(2) For the purpose of subsection (1), "new undertaking" means an undertaking which -

(a) Is not formed by the splitting up, reconstruction or the acquisition of an undertaking which was in existence before November 7, 2007;

(b) Commences commercial operations on or after November 7. 2007 ; and

(c) Is located within the Eastern Province,

And the sum invested in the undertaking before April 1, 2010 (other than in land), is not less than thirty million rupees.

24D. (1) The profits and income within the meaning of paragraph (a) of section 3 (other than any profits and income from the sale of any

Exemption of the profits and income of

capital asset) of any new undertaking (other than any specified undertaking) located in any lagging region and referred to in subsection (2), shall be exempt from income tax for a period of five years commencing from the year of assessment in which such undertaking commences to make profits from transactions entered into 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 two years reckoned from the date on which the undertaking commences to carry on commercial operations, whichever occurs earlier.

any new undertaking located in any lagging region.

$ 17, 9 of 2008 w.e.f.01.04.2008

(2) For the purpose of subsection (1) :-

"lagging region" in relation to any year of assessment means any Divisional Secretary's Division determined by the Minister in consultation with any appropriate authority and specified by Order published in the Gazette as being in a state of economic backwardness in the year of assessment immediately preceding that year of assessment ;

"new undertaking" means an undertaking –

(a) Which commences commercial operations on or after April 1, 2008 ; and
(b) In which the sum invested in the acquisition of capital assets (other than land), after November 7, 2007 but before March 31, 2010, is not less than thirty million rupees ; and

"specified undertaking" means an undertaking engaged in the sale of any article not produced or manufactured by such undertaking.

CHAPTER IV

ASCERTAINMENT OF PROFITS OR INCOME

25. (1) Subject to the provisions of subsections (2) and (4), there shall be deducted for the purpose of ascertaining the profits or income of any person from any source, all outgoings and expenses incurred by such person in the production thereof, including—

Deductions allowed in Ascertaining profits and income.

(*a*) an allowance for depreciation by wear and tear of the following assets acquired, constructed or assembled and arising out of their use by such person in any trade, business, profession or vocation carried on by him—

(i) information technology equipments and calculating equipment including accessories and software, acquired

by such person, at the rate of twenty five *per centum per annum* on the cost of acquisition of such equipments, accessories and software, as the case may be;

(ii) any motor vehicle or furniture acquired by such person, at the rate of twenty *per centum per annum*, on the cost of acquisition;

(iii) any other machinery or equipment not referred to in sub- paragraphs (i) and (ii) above and any plant, other than any plant referred to in sub-paragraph (iv)- *$ 14,22 of 2011 w.e.f.01.04.2011*

(A) acquired or assembled prior to April 1, 2011 by such person, at the rate of twelve and one half *per centum per annum*; or

(B) acquired or assembled on or after April 1, 2011 by such person, at the rate of thirty three and one third *per centum per annum,* on the cost of acquisition or assembly;

(iv) any bridge, railway track, reservoir, electricity or water distribution line and toll roads constructed by such person or acquired from a person who has constructed such assets, at the rate of six and two third per centum per annum, on the cost of construction or cost of acquisition, as the case may be;

(v) any qualified building constructed or any unit of a condominium property acquired and which is approved by the Urban Development Authority established by the Urban Development Authority Law, No. 41 of 1978 and constructed to be used as a commercial unit or any hotel building (including a hotel building complex) or any industrial building (including any industrial building complex) acquired from a person who had used such building in any trade or business- *$ 14,22 of 2011 w.e.f.01.04.2011 (Repealed [$ 7(1)(a),9 of 2015] w.e.f.01/04/2015)*

(A) prior to April 1, 2015 at the rate of six and two third *per centum* per annum, on the cost of construction or cost of acquisition of such building or unit; or

(B) on or after April 1, 2015 at the rate of ten *per centum* per annum on the cost of construction or the cost of acquisition of such building or unit;

$ 14,22 of 2011 w.e.f.01.04.2011 (Repealed w.e.f.01/04/2016)

Provided that —

(*a*) where any software acquired is software developed in Sri Lanka, the rate shall be one hundred *per centum* on the cost of acquisition;

(*b*) where:— *$ 10, 10 of 2007 [$ 14,22 of 2011 w.e.f.01.04.2011]*

(i) any plant or machinery acquired prior to April 1, 2011, is used in any business of providing health care, printing on paper, gem cutting and polishing, packaging of any commodity for commercial purposes, rice milling or such other business as may be prescribed by the Commissioner- General by Order published in the *Gezette*; or

(ii) the asset consists of a ship acquired on or after April 1, 2007, but prior to April 1, 2011, being a ship which is owned by a company registered under Part XI of the Companies Act, No.7 of 2007 or is deemed to be a Sri Lanka ship by virtue of a determination made under paragraph (*c*) of section 30 of the Merchant Shipping Act, No. 52 of 1971, *[$ 18, 9 of 2008 w.e.f.01.04.2008] [$ 14,22 of 2011 w.e.f.01.04.2011]*

the rate shall be 33 1/3 *per centum* of the cost of acquisition;

(c) where any plant or machinery is acquired on or after April 1,2007 but prior to April 1, 2011 and is used in any business of carrying out construction work, the rate shall be twenty five per centum of the cost of acquisition; *$ 10, 10 of 2007 $ 12, 8 of 2012*

(d) where for energy efficiency purposes, any high tech plant, machinery or equipment is acquired on or after April 1, 2012, the rate shall be fifty per centum of the cost of acquisition; *$ 12, 8 of 2012 w.e.f.01.04.2012*

Provided that where such high tech plant, machinery or equipment acquired on or after April 1, 2013 and used in any trade or business meets more than thirty *per centum* of the total requirement of the power generation of that trade or business out of alternative energy sources, the rate shall be one hundred *per centum* on the cost of acquisition; *$ 11, 18 of 2013 w.e.f.01.04.2013*

For the purpose of this proviso "alternative energy source" means any source other than the

National Grid that generates power.

(e) where any plant or machinery or equipment is acquired and used in any business on or after April 1, 2013 for technology upgrading purposes or introducing any new technology, the rate shall be fifty per centum of the cost of acquisition; *$ 11, 18 of 2013 w.e.f.01.04.2013*

(f) where any plant, machinery or equipment is acquired and used on or after April 1, 2013 in any Stock Broker Company for the upgrading of information technology infrastructure to be in compliance with the requirements of the Colombo Stock Exchange licensed by the Securities and Exchange Commission, in relation to the Risk Management System, the rate shall be one hundred *per centum* of the cost of acquisition; *$ 11, 18 of 2013 w.e.f.01.04.2013*

(g) where any plant, machinery or equipment acquired and used on or after April 1, 2013, in any trade or business and where at least sixty *per centum* of the turnover of such trade or business is from export, the rate shall be fifty *per centum* of the cost of acquisition; *$ 11, 18 of 2013 w.e.f.01.04.2013*

(h) where any plant, machinery or equipment acquired and used on or after April 1, 2015, in any new undertaking commenced on or after April 1, 2015 for the manufacture of products for exports with an investment of not less than two million US Dollars or its equivalent in other currency and which is not formed by splitting up or re-construction of an existing undertaking, the rate of depreciation shall be hundred *per centum* of the cost of acquisition; *[$ 7(1)(b),9 of 2015]*

Provided further, that no deduction under the preceding provisions of this paragraph shall be allowed to a person in respect of any capital asset referred to in sub-paragraphs (i), (ii), (iii), (iv) or (v) of this paragraph in respect of which the total of the allowances granted for depreciation in the preceding years of assessment, is equal to the cost of acquisition or cost of construction or assembling, as the case may be, of such capital asset by such person ; *[$ 7(1)(c),9 of 2015]*

(*b*) (i) a sum equal to one fourth of any payment made by such person as consideration for obtaining a license in his favour of any manufacturing process used by

such person in any trade or business carried on by such person ;

(ii) a sum equal to one tenth of the cost of acquisition of any intangible asset, other than goodwill, acquired by such person :

Provided that no deduction under the provisions of this paragraph shall be allowed to any person in respect of any such payment if the total of the sums deducted in the preceding years of assessment is equal to the amount of such payment ;

(*c*) any sum expended by such person for the renewal of any capital asset employed by such person for producing such profits or income, if no allowance for the depreciation thereof is deductible in respect of that asset;

(*d*) any sum expended by such person for the repair (not renewal) of any plant, machinery, fixtures, building, implement, utensil or article employed for producing such profits and income :

Provided that, in the case of a company carrying on the business of letting premises, the sum deductible under this paragraph shall, in so far as such sum relates to the repairs of such premises, not exceed twenty five *per centum* of the gross rent receivable by such company for such premises ;

(e) for the year of assessment commencing on April 1, 2006, a sum equal to the bad debts incurred by such person in any trade, business, profession, vocation or employment which have become bad debts during the period for which the profits are being ascertained, and such sum as the Commissioner-General considers reasonable for doubtful debts to the extent that they are estimated to have become bad during the period, notwithstanding that such bad or doubtful debts were due and payable prior to the commencement of that period: *$ 10, 10 of 2007*

Provided that all sums recovered during that period on account of the amounts previously written off or allowed in respect of bad or doubtful debts shall for the purposes of this Act, be treated as receipts of that period of that trade, business, profession, vocation or employment and for the purpose of this proviso, sums recovered shall be deemed to include any reductions as at the last date of such period in any estimated amount of a doubtful debt previously allowed as a deduction;

(*ee*) for any year of assessment commencing on or after April 1, 2007, a sum equal to the bad debts incurred by such person in any trade, business, profession, vocation or employment which have become bad debts during the period for which the profits are being ascertained : *$ 10, 10 of 2007*

Provided that, all sums recovered during such period on account of the amounts previously written off or allowed in respect of bad debts shall, for the purposes of this Act, be treated as receipts of that trade, business, profession, vocation or employment, for such period ;

(*eee*) for any year of assessment commencing on or after April 1, 2007, where such person is a bank or a financial institution, such sum as the Commissioner-General considers reasonable for doubtful debts, to the extent that they are estimated to have become bad during the period for which the profits are being ascertained, and notwithstanding that such debts were due and payable prior to the commencement of that period: *$ 10, 10 of 2007*

Provided that :—

(i) such sum so considered reasonable shall not exceed one *per centum* of the aggregate debts outstanding at the end of that period ;

(ii) where the doubtful debts estimated by such person as having become bad during the period for which the profits are being ascertained exceeds the sum deducted under this paragraph, the excess shall be deemed to be doubtful debts estimated by such person as having become bad during the period immediately succeeding the period hereinbefore referred to ; and

(iii) where the estimated amount of any doubtful debt previously allowed as a deduction has been reduced or such amount or any part thereof has been paid during such period, the sum by which such amount has been so reduced or the sum so paid shall for the purposes of this Act, be treated as a receipt of such bank or financial institution for that period.

For the purposes of this paragraph, "financial institution" shall have the same meaning as given for that expression in section 147 ;

(*eeee*) for any year of assessment commencing on or after April 1, 2007, where such person is not a bank or a financial institution, such sum as the Commissioner-General *$ 10, 10 of 2007*

considers reasonable for doubtful debts, to the extent that they are estimated to have become bad during the period for which the profits are being ascertained :

Provided that, where the estimated amount of any doubtful debt previously allowed as a deduction has been reduced or such amount or any part thereof has been paid during such period, the sum by which such amount has been so reduced or the sum so paid shall, for the purposes of this Act, be treated as a receipt of such person for such period.

For the purposes of this paragraph "financial institution" shall have the same meaning as given for that expression in section 147;

(f) interest paid or payable by such person;

(g) any contribution by an employer to a pension, provident or savings fund or to a provident or savings society, which is approved by the Commissioner-General subject to such conditions as he may specify;

(h) tax payable under any Statute enacted by a Provincial Council which such person is liable to pay for the period for which the profits and income are being ascertained in respect of any trade, business, profession or vocation carried on or exercised by him :

Provided further that, where it appears to an Assessor or Assistant Commissioner that any such tax in respect of which a deduction has been refused, has been paid within a period of three years from the end of the year of assessment to which such assessment relates, he shall, on an application made in writing within twelve months of making such payment and supported by such proof as he may require, make an amended assessment allowing such deduction, notwithstanding the provisions of section 171, and any tax found to have been paid in excess as a result of such amended assessment shall be refunded, notwithstanding the provisions of section 200; (repealed)

$ 10, 10 of 2007

(i) for any year of assessment-

[$ 14,22 of 2011 w.e.f.01.04.2011]

(i) commencing prior to April 1, 2011, the expenditure including capital expenditure; or

(ii) commencing on or after April 1, 2011, an amount equal to two hundred *per centum* of the expenditure, including capital expenditure,

incurred by such person in carrying on any scientific, *$ 12, 8 of 2012*

industrial, agricultural or any other research for the upgrading of any trade or business carried on by such person: *w.e.f.01.04.2012*

Provided that- *$ 11, 18 of 2013 w.e.f.01.04.2013*

(A) where such expenditure is incurred on or after April 1, 2012 but prior to April 1, 2013 and such research is carried out through any Government institution;

(B) where such expenditure is incurred on or after April 1, 2013 and such research is carried out through any institution in Sri Lanka,

(C) where such expenditure on research is incurred on or after April 1, 2015 , for any innovation or research relating to high value agricultural products and such research is carried out by such person himself or through any research institution, in Sri Lanka, *[$ 7(1)(d),9 of 2015]*

the deduction shall be an amount equal to three hundred *per centum* of such expenditure incurred by such person.

For the purposes of this paragraph—

(i) "Government institution" includes any company, where fifty *per centum* or more of the shares are held by the Government; and

(ii) "scientific, industrial, agricultural or any other research" means any such research which is carried out for product or produce innovation, or improving the quality or character of any product, produce or service but does not include any market research or feasibility studies.

For the purpose of this paragraph the Commissioner-General shall issue guidelines in order to ensure the uniform application of deduction; *[$ 7(1)(e),9 of 2015]*

(*j*) any expenses incurred by such person in–

(i) opening up any land for cultivation or for animal husbandry;

(ii) cultivating such land with plants of whatever description;

(iii) the purchase of livestock or poultry to be reared on

such land; or

(iv) the construction of tanks or ponds or the clearing or preparation of any inland waters for the rearing of fish and the purchase of fish to be reared in such tank, pond or inland waters, as the case may be;

(*k*) the actual expenses incurred by such person or any other person in his employment in traveling within Sri Lanka in connection with the trade, business, profession or vocation of the first-mentioned person:

Provided that no deduction under the preceding provisions of this paragraph shall be allowed to any person–

(i) in respect of expenses incurred in relation to a vehicle used partly for the purposes of his trade, business, profession or vocation and partly for the domestic or private purposes of an executive officer being employed by him or a non- executive director of such organisation, unless the value of the benefit as specified under the proviso to paragraph (b) of subsection (2) of section 4 of this Act, has been included in the remuneration of such officer, for the purposes of deduction of income tax under Chapter XIV of this Act, where such benefit is not exempt under paragraph (s) of subsection (1) of section 8 of this Act,

$ 12, 8 of 2012 w.e.f.01.04.2012

(ii) in respect of expenses incurred in relation to a vehicle, where more than one vehicle is provided to any employee of such person or to any non-executive director or to any other individual who is not an employee but rendering services in the trade, business profession or vocation carried on by such person, if such vehicle is not the first vehicle provided to such employee or non-executive director or such other individual, as the case may be;

(iii) in respect of expenses incurred in relation to a vehicle where such vehicle is provided to any other person who is not an employee of such person and who does not render any services to the trade, business, profession or vocation carried on by such person;

(iv)

in respect of expenses incurred in relation to the reimbursement of any expenditure on a vehicle belonging to an employee of such person who has been allowed by the employer to claim such expenses, unless the value of benefit of using such vehicle for non-business purposes by such employee as determined by the Commissioner-General, has been

$ 10, 10 of 2007 w.e.f.01.04.2006

included in the remuneration of such employee for the purposes of deduction of income tax under Chapter XIV of this Act where such benefit is not exempt under paragraph (*s*) of subsection (1) of section 8 of this Act, or in the opinion of the Commissioner-General such amount that is reimbursed represents only expenses on allowable traveling expenses in relation to the trade, business, profession or vocation carried on by such employer ; and

[$ 7(1)(f),9 of 2015]

(v) in respect of any expenses incurred by such person by reason of any traveling done by any other person in his employment between the residence of such other person and his place of employment or vice versa.

$ 18, 9 of 2008 w.e.f.01.04.2008

(*l*) in the case of a company, expenditure incurred in the formation or liquidation of that company;

(*m*) the expenditure incurred by such person in operating a motor coach used for transporting employees of such person to and from their place of work;

(*n*) the expenditure incurred by such person in the payment of gratuity to an employee on the termination of employment of such employee, due to cessation of the trade, business, profession or vocation carried on by such person;

(*o*) any annual payment made by such person to any fund, approved for the purposes of this paragraph by the Commissioner-General and maintained for the purposes of payment under the Payment of Gratuity Act, No.12 of 1983, of gratuities to employees on the termination of their services;

(*p*) such part of the lump sum payment which not being an advance payment made by such person to any other person in connection with the letting or lease, to the first-mentioned person, of any commercial premises, as bears to the total lump sum payment the same proportion as the number of months in the year for which lease rent is payable bears to the total number of months comprised in the lease;

(*q*) expenditure incurred by any person in the training, in any recognized institution of any employee employed by such person in any trade or business carried on by such person, if it is proved to the satisfaction of the Commissioner-General that such training is–

(i) directly relevant to the duties performed by such employee before the commencement of such training;

(ii) essential for upgrading the skills or performance of such employee, in such trade or business; and

(iii) necessary for improving the efficiency and performance of such trade or business.

For the purpose of this paragraph—

"training" includes participation in any seminar or workshop;

"employee" includes any partner of any partnership carrying on a profession.

(*r*) the accreditation expenses, where such person is a person carrying on any profession; *$ 10, 10 of 2007 w.e.f.30.03.2007*

(*s*) any expenditure incurred in any year of assessment in quoting any shares of a company in any official list of any stock exchange licensed by the Securities and Exchange Commission of Sri Lanka, provided that the aggregate of such expenditure incurred in that year if assessment and in any previous year of assessment shall not exceed one *per centum* of the value of the Initial Public Offering of Such company. *[$ 14,22 of 2011 w.e.f.01.04.2011]*

(t) any expenditure incurred by any person in the maintenance or management of any sports ground, stadium or sports complex. *$ 12, 8 of 2012 w.e.f.01.04.2012*

(*u*) any sum paid by a Public Corporation or Government Owned Business Undertaking as a special levy, to the Government; *$ 11, 18 of 2013 w.e.f.01.04.2013*

(v) the cost of acquisition of any internationally recognized intellectual property used for producing such profits and income; *$ 12, 8 of 2014 w.e.f.01.04.2014*

(w) for any year of assessment commencing on or after April 1, 2014 any royalty or ground rent payable for the relevant year of assessment and paid by such person if such amount was not allowed to be deducted prior to April 1, 2014, under paragraph (*a*) of subsection (5) of section 32; *$ 12, 8 of 2014 w.e.f.01.04.2014 (Repealed w.e.f. 1/4/2016) [$ 7(1)(g),9 of 2015]*

(x) for any year of assessment commencing on or after April 1, 2015, an amount equal to three hundred *per centum* of the expenditure incurred by any person registered with the Tertiary and Vocational Education Commission established under the Tertiary and Vocational Educational Act, No. 20 of 1990 on *[$ 7(1)(g),9 of 2015]*

standard skill development training by any institution recommended by such Commission to be provided to trainees;

(y) for any year of assessment commencing on or after April 1, 2015, an amount equal to three hundred *per centum* of the expenditure incurred by any person for brand promotion for the export of products manufactured by such persons. *[$ 7(1)(g),9 of 2015]*

For the purpose of this paragraph "brand promotion" means, creating an internationally recognized brand name for a local value added product or produce.

(2) Where any person is entitled to a deduction in respect of any outgoing or expense under two or more paragraphs of subsection (l), in ascertaining the profits and income of such person from any source, such person shall be allowed a deduction only under one such paragraph. *$ 18, 9 of 2008 w.e.f.01.04.2008*

(3) (*a*) Where any person disposes of any capital asset used by him in producing the profits and income of any trade, business, profession or vocation and a total amount equal to the cost of acquisition or the cost of construction, as the case may be, of such capital asset has been granted as allowance for depreciation of such capital asset, the full amount of the proceeds of such disposal, whether such disposal takes place while such trade, business, profession or vocation continues or on or after its cessation, shall be treated as a receipt of such trade, business, profession or vocation in ascertaining the profits and income within the meaning of paragraph (*a*) of section 3.

(*b*) Where any person disposes of any capital asset used by him in producing the profits and income of any trade, business, profession or vocation carried on or exercised by him and an allowance for depreciation has been granted in respect of that capital asset but the total amount of such allowance is less than the cost of acquisition or the cost of construction, as the case may be, of such capital asset, the excess of the proceeds of such disposal over the difference between the cost of acquisition or the cost of construction of such capital asset, and the total allowance for depreciation granted in respect of such capital asset, shall, whether such disposal takes place while such trade, business, profession or vocation continues or after its cessation, be treated as a receipt of such trade, business, profession or vocation, in ascertaining the profits and income of such trade, business, profession or vocation, within the meaning of paragraph (*a*) of section 3:

Provided that where such difference exceeds the proceeds of such disposal, the excess shall be treated for the purposes of subsection (1), as an expense incurred in the production of income:

Provided further that nothing in paragraph *(a)* or *(b)* shall apply to— *$ 9,19 of 2009 w.e.f.01.04.2006*

(i) the transfer of any such capital asset to a company formed by the conversion of a business carried on by an individual either solely or in partnership ;

(ii) the disposal by any person of any such capital asset, if the full proceeds of disposal are used by such person, within one year of the disposal for the replacement of such capital asset to be used by him for producing income in any trade, business, profession or vocation carried on or exercised by him; or *$ 18, 9 of 2008 w.e.f.01.04.2008*

(*c*) Where a person carrying on any undertaking, the profit and income of which are wholly or partly exempt from income tax under this Act, disposes of any capital asset used for the purposes of that undertaking, such person shall be liable to income tax on an amount equal to the amount ascertained under paragraph (*a*) or paragraph (*b*).

(4) Subject to as hereinafter provided, income arising from interest shall be the full amount of interest falling due, whether received or not, without any deduction for outgoing or expenses:

Provided that–

(*a*) where it appears to an Assessor or Assistant Commissioner that any interest is unpaid and cannot be recovered, any assessment which includes such interest shall, notwithstanding the provisions of section 171, be reduced by the amount of the interest included which has been shown to be unpaid and irrecoverable or, if income tax has been paid in respect of such interest, such tax may be refunded on a claim in writing made within three years of the end of the year of assessment in respect of which such tax was paid;

(*b*) where any interest falling due in any year of assessment in respect of a loan has not been received and is likely to be irrecoverable, the person to whom such interest is due may exclude such interest from the profits and income chargeable with income tax for that year of assessment;

(*c*) where it appears to an Assessor or Assistant Commissioner that any interest which has been excluded from an assessment

under paragraph (*b*) has subsequently been received and that income tax has not been paid in respect of such interest, he shall, notwithstanding anything in subsection (5) of section 163 limiting the period within which an assessment or additional assessment may be made, make an assessment or additional assessment including such interest.

(5) No deduction under paragraph (*a*) or paragraph (*b*) or paragraph (*c*), or paragraph (*d*) of subsection (1) in respect of any capital asset, shall be allowed to any person if—

(*a*) such person has let on hire such capital asset –

(i) to any undertaking the whole or any part of the profits and income within the meaning of paragraph (*a*) of section 3, of which are exempt from income tax; or

(ii) for the use in any undertaking carried on by the person from whom it was acquired or by any member of the family of that person or any member of his family in partnership with any other person or persons; or

(*b*) such person uses such capital asset in any undertaking carried on by him in partnership with the person from whom it was acquired or with any member of the family of the person from whom it was acquired:

Provided that the provisions of sub paragraph (i) of paragraph (*a*) shall not apply in respect of any capital asset let on hire by any person, if such person is a company engaged in the business of letting capital assets on hire.

For the purpose of this subsection "person" includes a partnership. *[$ 7(2),9 of 2015]*

(6) The profits and income received by one spouse for services rendered in any trade, business, profession or vocation carried on or exercised–

(*a*) by the other spouse; or

(*b*) by a partnership of which that other spouse is a partner,

shall be deemed to be the profits and income of that other spouse.

(7) For the purpose of this section—

(*a*) "allowance for depreciation", in relation to any capital

asset, means any allowance which is deductible in respect of that asset under-

(i) paragraph (*a*) of subsection (1) of this section;

(ii) paragraphs (*a*), (*b*), (*bb*) or (*d*) of subsection (1) of section 23 of the Inland Revenue Act; No. 38 of 2000 ; or

(iii) paragraphs (*a*), (*b*), (*c*), (*d*), (*e*), (*ee*), (*eee*) or (*eeeee*) of subsection (1) of section 23 of the Inland Revenue Act, No. 28 of 1979;

(*b*) "capital asset" in relation to a trade, business, profession or vocation means any plant, machinery, fixture, fitting, utensils, articles or equipment, including computer software or intangible assets other than goodwill, used for the purpose of producing the income in such trade, business, profession or vocation or building constructed for the purposes of such trade, business, profession or vocation; *[$ 7(3),9 of 2015]*

(*c*) "proceeds" in relation to the disposal of any capital asset means—

(i) the sale price of such asset, where the disposal is by sale; or

(ii) the market value of such asset at the time of disposal, where the disposal is otherwise than by sale,

after deducting from such sale price or market value, as the case may be, the amount of value added tax chargeable under the Value Added Tax Act, No. 14 of 2002, on the disposal of such capital asset, if such tax is included in such sale price or market value, as the case may be;

(*d*) "disposal", in relation to the disposal of any capital asset by any person includes–

(i) sale, exchange, or other transfer in any manner whatsoever of such asset by such person;

(ii) discard of such asset by such person;

(iii) cessation of the use of such asset by such person in any undertaking carried on by him in ascertaining the profits and income of which, an allowance for depreciation could be deducted;

(*e*) "qualified building" means a building constructed to be used for the purpose of a trade, business, profession or vocation,

other than to be used as a dwelling house by an executive officer employed in that trade, business, profession or vocation;

(*f*) (i) where any capital asset which is used in any trade, business, profession or vocation carried on or exercised by any person and in respect of which an allowance for depreciation has been granted is sold, and the full proceeds of sale used within one year of the sale for the acquisition of another capital asset to replace the capital asset so sold, and to be used in such trade, business profession or vocation, the cost of acquisition of such other capital asset shall be deemed to be the difference between the actual cost of acquisition of such other capital asset and the profits from the sale of the capital asset sold.

For the purposes of this sub-paragraph the profits from the sale, in relation to any capital asset, shall be the excess of the proceeds of sale of such asset over the difference between–

(A) the cost of acquisition or the cost of construction, as the case may be, of such asset; and

(B) the total allowance for depreciation granted in respect of such capital asset;

(ii) where any plant, machinery or fixtures is acquired otherwise than by way of purchase by any person to be used in any trade, business, profession or vocation carried on or exercised by him, the cost of acquisition of such plant, machinery or fixtures shall be the market value of such plant, machinery or fixtures on the date of such acquisition;

[$ 7(3),9 of 2015] (*Repealed substituted)* *7*

(iii) where a company is incorporated (hereinafter referred to as the "first mentioned company") to –

(a) take over the business (including the capital assets) carried on by an individual either solely or in partnership with others, and acquires the capital assets of such business being carried on by such individual or partnership; or

(b) segregate the business of long term insurance and general insurance as separate businesses as required in terms of Regulation of Insurance Industry (Amendment) Act, No. 3 of 2011 or to consolidate, acquire or merge of any bank, financial institution or leasing company under the guidance of the Central Bank of Sri Lanka subject to conditions specified in the Guidelines issued

by the Commissioner General where such businesses are carried out separately prior to such segregation, consolidation, acquisition or merger, by each such company (hereinafter referred to as the "second mentioned company"),

the cost of acquisition of each capital asset by the first mentioned company shall be deemed to be the cost of acquisition of such capital asset by such individual or partnership or the second mentioned company, reduced by the amount of any allowance for depreciation granted in respect of such asset to such individual or partnership or second mentioned company, and the date of acquisition of such capital assets by the first mentioned company, shall be deemed to be the date of acquisition of such capital asset by such individual, partnership or second mentioned company;

(iv) where any person is entitled under the Value Added Tax Act, No. 14 of 2002, to claim credit for input tax paid in relation to the acquisition or the construction of any capital asset, the cost of acquisition or the cost of construction, as the case may be, of such capital asset shall not include such input tax.

(v) where any asset used in the business of leasing as part of the leasing stock is disposed of either by transferring such assets out of the leasing stock or by transferring such asset to the lessee of such asset, the market value as at the time of such transfer of such asset shall be deemed to be a receipt from such trade or business of the lessor, unless such lessor proves to the satisfaction of the Assessor or Assistant Commissioner that all sums due from the lessee under the agreement relating to such lease have been treated as taxable receipts, in computing profits or income from such business;

$ 18, 9 of 2008 w.e.f.01.04.2008

(vi) where any person has obtained an asset under a lease agreement and the relevant lease rentals have been allowed to such person as expenditure incurred in any trade, business profession or vocation, either fully or partly, the proceeds of disposal of such assets, less any cost of acquisition other than lease rental paid on such assets by such person acquiring it directly or through a nominee, shall be treated as a receipt from such trade, business, profession or vocation of such lessee;

(vii) where any lessee has acquired any asset used by him in any trade, business, profession or vocation, upon the termination of a lease agreement, such acquisition shall not be considered as an acquisition which qualifies for any depreciation allowance under this section, and such asset

shall be treated as an asset on which depreciation has been granted to such lessee to the extent of the repayment of the capital value of such asset under such lease agreement by such lessee.

26. (1) For the purpose of ascertaining the profits or income of any person from any source, no deduction shall be allowed in respect of– Deductions not allowed in ascertaining profits and income.

(a) domestic or private expenses, including the cost of travelling between the residence of such person and his place of business or employment;

(b) expenses incurred in connection with his employment, other than the expenses referred to in paragraph (*e*) and paragraph (*g*) of subsection (l) of section 25;

(c) any expenditure incurred in travelling outside Sri Lanka in connection with any trade, business, not being a business referred to in paragraph (*d*), profession or vocation carried on or exercised in Sri Lanka by such person, other than the expenses incurred in travelling outside Sri Lanka, solely in connection with the–

(i) promotion of the export trade of any article or goods; or

(ii) provisions of any services for payment in foreign currency; or *[$ 15,22 of 2011 w.e.f.01.04.2011]*

(iii) services relating to design development, product development or product innovation by such person being a company engaged exclusively in the provision of such services: *$ 13, 8 of 2012 w.e.f.01.04.2012*

Provided that for any year of assessment commencing on or after April 1, 2011—

(A) such part of expenditure incurred in travelling outside Sri Lanka in the production of profits or income from any trade or business carried on or exercised in Sri Lanka by any person, after deducting there from–

(i) such expenses incurred in travelling outside Sri Lanka solely in connection with the promotion of export trade of any article or goods or the provision of any service for payment in foreign currency; or

(ii) such expenditure incurred in travelling outside Sri Lanka in carrying out an approved programme as referred to in paragraph *(d)*; or

(iii) for any year of assessment commencing on or after April 1, 2012, such expenditure incurred in travelling outside Sri Lanka, by any company engaged exclusively in the provision of services relating to design development, product development or product innovation;

(B) an amount equal to two *per centum* of the profits and income of such trade or business in the immediately preceding year of assessment,

whichever is lower, shall be deductible in ascertaining the profits and income from such trade or business for that year of assessment;

(d) any expenditure incurred in travelling outside Sri Lanka in connection with the business of any undertaking of operating any hotel for tourists, carried on by such person, other than the expenditure incurred in travelling outside Sri Lanka solely in carrying out a programme approved by the Ceylon Tourist Board for the promotion of tourism;

(e) entertainment expenses incurred by such person or his employee or on his behalf in connection with any trade, business, profession or vocation carried on or exercised by him;

(f) entertainment allowances paid by such person to his executive officer ;

(g) any disbursements or expenses of such person, not being money expended for the purpose of producing such profits or income;

(h) any expenditure of a capital nature or any loss of capital incurred by such person;

(i) the cost of any improvements effected by such person;

(j) any sum recoverable under a contract of insurance or indemnity, if the amount received under such contract is not treated as a receipt from such trade, business, profession or vocation under section 89 of the Inland Revenue Act, No. 28 of 1979 or under section 95 of the Inland Revenue Act, No. 38 of 2000 or section 100 of this Act ;

(k) rent of, or expenses in connection with, any premises or part of a premises not occupied or used for the purposes of producing such profits and income;

(l) any amount paid or payable by such person by way of—

(i) income tax, or super tax or surtax or any other tax of a similar character in any country with which an agreement made by the Government of Sri Lanka for the avoidance of double taxation is in force (other than the excess of any such income tax, or super tax or surtax or any other tax of a similar character over such maximum amount of the credit in respect of Sri Lanka income tax as is allowed by paragraph (*c*) of subsection (1) of section 97,; or

$ 11, 10 of 2007 w.e.f.30.03.2007

(ii) Sri Lanka income tax; or

(iii) any prescribed tax or levy; or

$ 11, 10 of 2007 w.e.f.30.03.2007

(iv) any Economic Service Charge levied under Economic Service Charge Act, No. 13 of 2006; or

$ 11, 10 of 2007 w.e.f.30.03.2007

(v) the Value Added Tax Act, No. 14 of 2002 and any Nation Building Tax on Financial Services within the provisions of the Nation Building Tax Act, No. 9 of 2009; or

$ 11, 10 of 2007 w.e.f.30.03.2007 [$ 8(1)(a),9 of 2015]

(vi) any Social Responsibility Levy levied under item 4 of the First Schedule to the Finance Act, No. 5 of 2005; or

$ 11, 10 of 2007 w.e.f.30.03.2007

(vii) any Crop Insurance Levy levied under section 14 of PART IV of the Finance Act, No. 12 of 2013; or

$ 13(1) 8 of 2014 w.e.f.1.4.2014

(viii) supper gain tax, Bars and Taverns Levy, Casino Industry Levy, Mobile Telephone Operator Levy, Satellite Location Levy, Dedicated Sports Channel Levy and Mansion Tax imposed and levied under the provisions of the Finance Act, No. 10 of 2015,

[$ 8(1)(c),9 of 2015]

Any regulation prescribing a tax or levy for the purpose of this paragraph may be declared to take effect from a date earlier than the date on which such regulation is made ;

(m) any ground rent or royalty payable for any period prior to April 1, 2014 and paid after April 1, 2014 which is deductible under paragraph (*a*) of subsection (5) of section 32 or annuity paid by such person;

$ 13(1) 8 of 2014 w.e.f.1.4.2014 [$ 8(2),9 of 2015] (Repealed substituted) 7

(n) any payment by such person to any pension, provident, savings, widows' and orphans' pension, or other society or fund, except such payments as are allowed under paragraph (g) of subsection (l) of section 25;

(o) (i) one half of the excess of any expenditure in relation to any employee where profits from employment under paragraph (a) of subsection (1) of section 4, does not exceed six hundred thousand rupees per year ; and

(iii) three fourths of the excess of any expenditure in relation to any employee whose profits from employment under paragraph (*a*) of subsection (1) of section 4 exceeds six hundred thousand rupees per year,

incurred by such person in providing any place of residence to any employee of such person or to the spouse, child or parent of such employee over the rental value of such place of residence which is included in the profits from employment of such employee within the meaning of section 4.

For the purposes of this paragraph "expenditure" shall include rent, lease rent, rates, repairs and maintenance or other expenses directly and specifically related to such place of residence borne by the employer;

(p) such part of the rental paid by him under any finance leasing agreement entered into by him in respect of–

(i) any motor vehicle, furniture, plant, machinery or equipment other than information technology equipment and calculating equipment including accessories and computer software and other computing or calculating machine referred to in paragraph (*a*) of subsection (l) of section 25, as is in excess of one-fifth of the total rental payable under such agreement; and

(ii) any information technology equipment and calculating equipment including accessories and computer software as referred to in paragraph (a) of subsection (l) of section 25, as is in excess of one-fourth of the total rental payable under such agreement;

(q) any sum transferred to any reserve or provision (other than any annual payment referred to in paragraph (o) of subsection (1) of section 25, for the payment of any sum referred to in subsection (2) of section 35;

(r) such part of any sum paid or payable by such person, not being any venture capital company, any unit trust or any mutual fund, as consideration for the management of any trade, business, profession or vocation carried on or exercised by him, as exceeds–

(i) two million rupees or one *per centum* of the turnover of such trade, business, profession or vocation during the period for which profits and income are being ascertained, whichever is lower or; *$ 15,22 of 2011 w.e.f.01.04.2011*

(ii) such amount as may be determined by the Commissioner-General having regard to all the circumstances of the case, as being reasonable and commercially justifiable as such consideration,

whichever is higher.

For the purposes of this paragraph, the term "turnover" in relation to any trade, business, profession or vocation and to any period, means the total amount received or receivable from transactions entered into or for services performed in that period, in carrying on or exercising such trade, business, profession or vocation, excluding any amount received or receivable from the sale of capital assets ;

(s) any expenditure or outgoing in relation to any asset provided by such person to any employee to be used in the residence of such employee;

(t) any expenditure or outgoing in relation to any movable or immovable property given by such person to any employee at a price, less than market value at the time of giving such property ;

(u) any expenditure or outgoing in relation to any loan, other advance or credit granted to any employee which is subsequently written off as a bad debt by such person;

For the purposes of paragraphs (s), (t) and (u), of this subsection, the term "employee" shall have the same meaning as given to such term in section 131 of this Act; *$ 19, 9 of 2008 w.e.f.01.04.2006*

(v) for any year of assessment- *$ 15,22 of 2011 w.e.f.01.04.2011*

(i) commencing prior the April 1, 2011, one half; and

(ii) commencing on or after April 1, 2011, one fourth,

of such person's cost of advertisement in connection with any trade, business, profession or vocation carried on or exercised by him other than the cost of advertisement incurred on or after August 1, 2012, on sponsorship of international sport events approved by the Minister to whom the subject of Sports has been assigned; or the cost of advertisement outside Sri Lanka incurred solely in *$ 11, 18 of 2013 w.e.f.01.04.2013*

connection with the export trade of any article or goods or the provisions of any services for payment in foreign currency ;

(w) any expenditure incurred in any trade or business carried on in Sri Lanka by any non- resident company being expenditure in the nature of head office expenditure, incurred in any period by reference to the profits and income of which the statutory income from such trade or business is computed.

For the purpose of this paragraph, the expression "head office expenditure" shall have the same meaning as given in section 27 of this Act ;

(x) the excess, if any, of the aggregate amount of the interest payable for any year of assessment by any subsidiary company (hereinafter referred to as the first mentioned subsidiary company) of any holding company, in respect of any loan obtained from such holding company or any other subsidiary company or subsidiary companies (hereinafter referred to as the second mentioned subsidiary company or subsidiary companies), over such part of the interest so payable, as is attributable to such part of such loan, as is equal to thrice the aggregate of the issued share capital and reserves at the end of that year of assessment of the first mentioned subsidiary company, where such first mentioned subsidiary company is a manufacturer:

Provided that where such first mentioned subsidiary company is not a manufacturer the provisions of the preceding paragraph shall apply as if for the reference in that paragraph to the words "thrice the aggregate of the issued share capital and reserves", there were substituted a reference to the words "four times the aggregate of the issued share capital and reserves".

In this paragraph —

(i) the expressions "subsidiary company" and "holding company" shall have the same respective meanings assigned to them in the Companies Act, No. 7 of 2007;

$ 13, 8 of 2012 w.e.f.01.04.2012

(ii) the first mentioned subsidiary company shall, in relation to any year of assessment, be deemed to be "a manufacturer", if more than fifty *per centum* of the turnover for that year of assessment of such subsidiary company, is from the sale of products manufactured by such subsidiary company ;

(iii) "reserves" do not include reserves arising from the revaluation of any asset ; and

(iv) "turnover" in relation to any year of assessment of a subsidiary company, means the total amount receivable, whether actually received or not, from every sale made in that year of assessment, of products manufactured by such subsidiary company :—

(A) after deducting there from –

(i) any sum included in such total amount, being the proceeds from the disposal of any capital asset ;

(ii) the amount of any bad debt incurred during that year of assessment, being an amount which had been included in the relevant turnover of such company for that or any previous year of assessment ; and

(iii) any sum included in such total amount, being a sum which represents the value added tax ; and

(B) after adding thereto any sum received during that year of assessment on account of any bad debt, written off or allowed in any previous year; and

$ 11, 10 of 2007 w.e.f.30.03.2007

(v) "loan" includes the collection of funds from the issue of any debt instrument.

$ 11, 10 of 2007 w.e.f.30.03.2007

(y) the excess, if any, of the aggregate amount of the interest payable for any year of assessment by any holding company to any subsidiary company of such holding company, in respect of any loan obtained from such subsidiary company, over such part of the interest so payable as is attributable to such part of such loan as is equal to thrice the aggregate of the issued share capital and reserves of such holding company, at the end of that year of assessment, where such holding company is a manufacturer :

$ 11, 10 of 2007 w.e.f.30.03.2007

Provided that, where such holding company is not a manufacturer, the provisions of the preceding paragraph shall apply as if for the reference in that paragraph to the words "thrice the aggregate of the issued share capital and reserves", there were substituted the words "four times the aggregate of the share capital and reserves.

In this paragraph—

(i) the expressions "subsidiary company" and "holding company" shall have the same respective meanings assigned to them in the Companies Act, No. 7 of 2007;

(ii) any holding company shall, in relation to any year of assessment, be deemed to be "a manufacturer", if more than fifty per centum of the turnover for that year of assessment of such holding company, is from the sale of products manufactured by such holding company ;

(iii) "reserves" do not include reserves created for the purpose of accounting for any surplus from the revaluation of any asset ; and

(iv) "turnover" in relation to any year of assessment of any holding company, means the total amount receivable, whether actually received or not, from every sale made in that year of assessment of products manufactured by such holding company :—

(A) after deducting therefrom:—

(i) any sum included in such total amount, being proceeds from the disposal of any capital asset ;

(ii) the amount of any bad debt incurred during that year of assessment, being an amount which had been included in the turnover of such holding company for that or any previous year of assessment ; and

(iii) any sum included in such total amount, being a sum which represents the value added tax ; and

(B) after adding thereto any sum received during that year of assessment on account of any bad debt, written off or allowed in any previous year ; and

(v) "loan" includes the collection of funds from the issue of any debt instrument;

(z) the income tax paid by any employer in respect of the employment income of any individual employed by such employer.

$ 15,22 of 2011 w.e.f.01.04.2011

(2) No person carrying on any trade, business, profession or vocation shall be entitled to any sum for depreciation by wear and tear, or

$ 19, 9 of 2008 w.e.f.01.04.2006

for renewal, or to any allowance under paragraph *(a)* or paragraph *(c)* of subsection (1) of section 25 :-

(*a*) for any year of assessment, in respect of any vehicle used for travelling for the purpose of his trade, business, profession or vocation, except in respect of–

(i) a motor cycle or bicycle used for such purpose by an officer, who is not an executive officer, in the employment of such person; and

(ii) a motor coach used for transporting employees of such person to or from their place of work; and

(*b*) in respect of any plant, machinery, fixtures, equipment or articles provided for the use of any officer or employee of such person, in the place of residence of such officer or employee,

or for any deduction for any rental or annual payment in respect of any such vehicle, plant, machinery, fixtures, equipment or articles as are referred to in paragraphs (*a*) and (*b*).

(3) In ascertaining the profits or income arising from the annual value or rent of land and improvements thereon, no deduction shall be made for outgoing and expenses except those authorized in section 5 or section 6, as the case may be, except in the case of a company carrying on the business of letting premises.

$ 11, 10 of 2007 w.e.f.30.03.2007

$ 11, 10 of 2007 w.e.f.30.03.2007

$ 13(2) 8 of 2014 w.e.f.1.4.2014

(4) In computing the statutory income for any year of assessment of any person from any trade, business, profession or vocation carried on or exercised by such person, no deduction shall be allowed under section 25 or this section or section 27, in respect of any expenditure or any part thereof, and an assessment shall be made disallowing the entirety or any part of such expenditure notwithstanding anything to the contrary in any other provisions of this Act, if it appears to the Assessor or Assistant Commissioner that the debt or such part thereof attributable to such expenditure or any part thereof, remains unpaid at the time such assessment for that year of assessment is made:

Provided that, if it is proved to the satisfaction of the Assessor or Assistant Commissioner within three years from the end of that year of assessment, that such debt or such part thereof has been paid within two years from the end of that year of assessment, the Assessor or Assistant Commissioner shall, notwithstanding the provisions of section 171, revise the assessment allowing the deduction of the sum so paid and any tax found to have been paid consequent to such disallowance of such deduction, shall

notwithstanding anything to the contrary in any other provision of this Act, be refunded.

27. (1) Where any non - resident company carrying on in Sri Lanka any trade or business incurs any expenditure in the nature of head office expenditure, there shall be deducted from the profits and income of such company for such year of assessment from such trade or business, a sum equal to the lesser of – Deduction of head office expenses incurred by any non resident company.

(*a*) the amount of such expenditure; or

(*b*) the amount equal to ten *per centum* of such profits or income.

(2) For the purpose of this section "head office expenditure" in relation to a non- resident company and to any year of assessment, means the executive and general administration expenditure incurred by or on behalf of such company outside Sri Lanka, including expenditure –

(a) comprising the aggregate of the total profits from employment of and the total cost of traveling undertaken by every employee and every other person employed in or managing the affairs of any office of such company outside Sri Lanka ; and

(*b*) in respect of —

(i) any premises outside Sri Lanka ; and

(ii) such other matters connected with the executive and general administration as the case may be, determined by the Commissioner-General having regard to all the circumstances of the case, as being reasonable and commercially justifiable.

CHAPTER V

ASCERTAINMENT OF TOTAL STATUTORY INCOME

28. (1) The statutory income of every person for each year of assessment from every source of his profits or income in respect of which tax is chargeable, shall be the full amount of the profits or income which was derived by him or arose or accrued to his benefit from such source during that year of assessment, notwithstanding that he may have ceased to possess such source or that such source may have ceased to produce income. Basis for computing statutory income.

(2) Where the Commissioner-General directs under the provisions

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

Provided that the Commissioner-General may at any time vary or revoke a direction given under the preceding provisions of this subsection:

Provided further, that where any such direction is varied or revoked by the Commissioner-General, he may order that the statutory income for any year of assessment from the source in respect of which such direction was given, be computed as if the accounts were made up to the thirty-first day of March in that year of assessment.

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

Provided that where a person–

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

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

(4) Where any person is unable to comply with the provisions of

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

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

29. Where in order to ascertain the profits or losses of any trade, business, profession, vocation or employment for any year of assessment or other period, it is necessary to divide and apportion in relation to specific periods the profits or losses for any period for which accounts have been made up, or to aggregate any such profits or losses or any apportioned parts thereof, it shall be lawful to make such division, apportionment or aggregation, as the case may be. Apportionment of profits.

Any apportionment of the profits or losses for any period for which accounts have been made up, shall be on the basis that such profits or losses accrued evenly over that period.

30. The total statutory income of a person for any year of assessment shall be the aggregate of his statutory income for that year of assessment from every source of his profits or income in respect of which tax is charged. Total statutory income.

31. The total statutory income for any year of assessment of a child of a resident individual, shall be aggregated with and deemed to form part of the total statutory income of– Aggregation of the total statutory income of a child with that of his parent.

(*a*) his father, if the marriage of his parents subsists in that year of assessment; or

(*b*) the parent who maintains him and with whom he lives in that year of assessment, if the marriage of his parents does not subsist in that year of assessment.

For the purposes of this section, a marriage shall be deemed not to subsists if the wife is living apart from her husband under a decree of a competent court or duly executed deed of separation or if the husband and wife are in fact separated in such circumstances that the separation is likely to be permanent.

CHAPTER VI

ASCERTAINMENT OF ASSESABLE INCOME

32. (1) The assessable income of a person (other than a company) for any year of assessment shall be his total statutory income for that year other than the– Deductions from total statutory Income in arriving at assessable income.

(*a*) statutory income from interest from which income tax has been deducted under section 133 or section 135 ; *$ 20, 9 of 2008 w.e.f.01.04.2008*

(*b*) statutory income from dividends from which income tax has been deducted under subsection (1) of section 65, whether received directly from such company which distributes the dividend or through any other company; and

(*c*) statutory income from interest arising or accruing to any individual, being interest from which income tax has been deducted under section 134; *$ 20, 9 of 2008 w.e.f.01.04.2008*

subject to the deductions specified in this section:

Provided however, where such income from interest or dividends from which income tax has been deducted under section 133 or subsection (1) of section 65, as the case may be, have been received by a person in the course of carrying on any trade or business as a receipt from such trade or business, such income from interest or dividends shall form part of the total statutory income of such person :

Provided further that the interest received or accruing to any primary dealer being a company or otherwise from which tax has been deducted under section 134 on any primary market transaction on any Security or Treasury Bond issued under the Registered Stocks and Securities Ordinance (Chapter 420), or Treasury Bill issued under the Local Treasury Bills Ordinance (Chapter 417), or Central Bank Security issued under the Monetary Law Act (Chapter 422), shall not be considered as receipts from any trade or business under section 3 for the purpose of computing the statutory income of such company.

(2) The assessable income of any primary dealer, shall not include any interest income received or accruing where–

(*a*) tax on the total amount of such interest has been deducted under section 134 ; and

(*b*) such interest income has been accrued or arisen to such

primary dealer in respect of a primary market transaction on any Security or Treasury Bonds issued under the Registered Stocks and Securities Ordinance (Chapter 420), or Treasury Bill issued under the Local Treasury Bills Ordinance (Chapter 417), or Central Bank Security issued under the Monetary Law Act (Chapter 422), referred to in section 134 as the case may be.

For the purposes of subsection (1) and of this subsection—

$ 20, 9 of 2008 w.e.f.01.04.2008

"interest income" means the proportionate amount of interest or discount allowed by the issuer of any security or instrument referred to in sub-paragraph (b) of this subsection, in proportion to the holding period of such security or other instrument by any holder over the period of maturity of such security or other instrument ;

"primary market transaction" means the purchase of any Security or Treasury Bond issued under the Registered stock and Security Ordinance (Chapter 420), or Treasury Bill issued under the Local Treasury Bills Ordinance (Chapter 417), or Central Bank Security issued under the Monetary Law Act (Chapter 422), at the time of the original issue of such Security, Bill or Bond by any primary dealer, subject to any discount or payment of interest by the issuer; and

"secondary market transaction" means the sale of a security or other instruments referred to in sub-paragraph (b) of sub section (2) of this section or re-purchase or reverse re-purchase of such security or other instruments after the original issue of such security or holding of any such security or instrument for a period longer than one day from the date of acquisition, by any primary dealer who has acquired such security or other instruments.

(3) The assessable income of any person shall not include—

(*a*) (i) any reward received by such person as an informer under any scheme for the payment of such rewards; or

(ii) a share of fine received by such person under any scheme for the distribution of such share of fine,

from any Government Institution, from which income tax has been deducted in accordance with Chapter XIX ;

(*b*) the receipt of any lottery prize or winnings from gambling or betting from which tax has been deducted under section 157;

(*c*) interest received on the compensation payable in respect of any immovable or movable property vested in the Government or in the Land Reform Commission or in a Public Corporation from which the income tax has been deducted under section 36; and

(*d*) interest accruing to such person from any Rupee Denominated Treasury Bond, purchased out of funds drawn from any Treasury Bond Investment External Rupee Account; *$ 12, 10 of 2007 w.e.f.01.11.2006*

(e) the profits and income of such person from the sale of any Rupee Denominated Treasury Bond, purchased out of funds drawn from any Treasury Bond Investment External Rupee Account ; *$ 20, 9 of 2008 w.e.f.01.04.2007*

(f) where such person is the Credit Guarantee Fund of the Central Bank of Sri Lanka, the interest accruing to such Fund from any Treasury Bond issued under the Registered Stocks and Securities Ordinance (Chapter 420) or from any Treasury Bill issued under the Local Treasury Bills Ordinance (chapter 417) ; *$ 20, 9 of 2008 w.e.f.01.04.2008*

(g) interest on which income tax has been deducted under section 95 and accruing to any person or partnership out side Sri Lanka, on any corporate debt security within the meaning of section 135, issued by or on behalf of any company in Sri Lanka and purchased by such person or partnership out of foreign currency brought into Sri Lanka and converted into Sri Lanka currency for such purchase; *$ 20, 9 of 2008 w.e.f.01.04.2008* *$ 15,22 of 2011*

(h) the profits and income from the sale of any gem on which tax has been deducted by the National Gem and Jewellery Authority established by the National Gem and Jewellery Authority Act, No. 50 of 1993, under subsection (1) of section 161A of this Act; and *$ 20, 9 of 2008 w.e.f.01.04.2008* *$ 16,22 of 2011*

(*i*) profits from any employment, other than profits referred to in paragraph (*c*) of subsection (1) section 4, from which income tax is deducted by the employer under section 114 and such person being an individual has no other income other than any income referred to in this section as not forming part of assessable income of such individual. *$ 16,22 of 2011 w.e.f.01.04.2011*

(4) The assessable income of any person referred to in paragraph (*b*) of section 7 (other than any registered society referred to in sub-paragraph (xvii) of that paragraph, shall not include :— *$ 12, 10 of 2007 w.e.f.30.03.2007*

(*a*) any interest from which tax has been deducted under section 133 or section 134; or

(*b*) any dividend from which tax has been deducted under subsection (1) of section 65.

(5) There shall be deducted from the total statutory income of a person for any year of assessment–

(*a*) sums paid by such person for any year of assessment by way of:

$ 20, 9 of 2008 w.e.f.01.04.2008

(i) any ground rent or royalty payable for any period prior to April 1, 2014 and which is paid after April 1, 2014; or

$ 12, 10 of 2007 w.e.f.30.03.2007 $ 14(1), 8 of 2014 w.e.f.1.4.2014 [$ 9(1),9 of 2015]

(ii) annuity or interest,

which he is not entitled to deduct under section 25.

For the purpose of this paragraph interest does not include the excess referred to in paragraph *(x)* or paragraph *(y)* of subsection (1) of section 26:

Provided that–

(i) no deduction shall be allowed in respect of any such sum paid, unless the Assessor or Assistant Commissioner is satisfied that the recipient of such payment has issued a valid receipt for such payment, containing name, address and the income tax file number (if any) of such person in Sri Lanka or that the tax has been deducted under this Act before or at the time such payment is made;

(ii) where for any year of assessment any such sum paid and deductible under this subsection exceeds the total statutory income for that year, the excess shall be treated for the purposes of this section, in the same manner as a loss incurred in a trade during that year;

(iii) where any sum is paid by such person by way of an annuity, no deduction shall be allowed in respect of such annuity, unless such annuity is paid–

(A) under an order of court by way of payment of alimony or maintenance;

(B) to his spouse under a duly executed deed of separation; or

(C) in return for full consideration in money or money's worth.

(iv) where any sum is paid by such person by way of interest, no deduction shall be allowed in respect of such interest, unless such interest is paid under any legal or contractual obligation–

(A) to any bank licensed under the Banking Act, No. 30 of 1988 or any finance company registered under the Finance Company Act, No. 78 of 1988; or

(B) to any other person recognized by the Commissioner-General for the purposes of this paragraph :

Provided however, where the Commissioner- General is satisfied that such recipient of interest has declared such interest as income under this Act, such person may be deemed to be a recognized person.

For the purposes of this paragraph the term "interest" means any interest paid on a loan the proceeds of which are utilized—

(i) for the construction or purchase of any building or for the purchase of any site for the construction of any building ;

(ii) in any trade, business, profession or vocation carried on or exercised by him ;

(*v*) no deduction under this section shall be made from any employment income included in the total statutory income; *$ 15,22 of 2011 w.e.f.01.04.2011*

(*b*) the amount of a loss, other than a loss referred to in paragraph (*c*) or paragraph (d), incurred by such person in any trade, business, profession or vocation which if it had been a profit would have been assessable under this Act, including any such loss brought forward from a previous year which had not been deducted under this section previously, and any excess treated as a loss under paragraph (ii) of the proviso to paragraph (*a*), upto a maximum limit of thirty five *per centum* of the excess of the total statutory income for that year, over the aggregate of :— *$ 20, 9 of 2008 w.e.f.01.04.2008* *$ 12, 10 of 2007 w.e.f.30.03.2007*

(i) statutory income from interest and dividends referred to in subsection (1) ;

(ii) any interest income referred to in subsection (2); and

(iii) any reward, share of fine, any lottery winning and any interest on compensation payable, as referred to in subsection (3),

for that year of assessment and any loss which cannot be

deducted, may be carried forward to the next year of assessment and so on:

Provided however,

(A) no loss incurred on the disposal of shares, rights or warrants in a company referred to in section 44 of this Act, shall be a loss deductible under this paragraph;

(B) no loss shall be carried forward beyond the year of assessment in which the death of such person occurred in the case of an individual, or liquidation of such person occurred in the case of a company or other body of persons; *$ 12, 10 of 2007 w.e.f.30.03.2007*

(C) where any person has been declared or adjudged insolvent by a competent court, no loss incurred prior to the date of bankruptcy or insolvency shall be deducted from income arising subsequent to such declaration of insolvency ;

(D) no loss shall be deducted which is incurred by a company in which there had been a change of ownership otherwise than by way of testate or intestate succession, except against the statutory income of such trade or business of the company as that in which the loss was incurred. *$ 12, 10 of 2007 w.e.f.30.03.2007*

For the purposes of this paragraph, a change of ownership of a company is deemed to have occurred where more than one third of the issued share capital of the company is held at any time in the year of assessment for which the claim for deduction is made, either directly or through nominees, by persons who did not hold such capital at any time in the year of assessment in which the loss was incurred.

(c) any loss incurred on or after April 1, 2007, in any business of life insurance, to the extent of any profits from such business included in such total statutory income; the balance, if any, of such loss after such deduction, shall be deemed to be a loss for the year of assessment immediately succeeding that year of assessment. *$ 12, 10 of 2007 w.e.f.30.03.2007*

For the purpose of this paragraph, profits or loss from any business of life insurance shall be computed in accordance with the provisions of section 92.

(cc) Where any person who is engaged in carrying on both life insurance business and general insurance business *$ 14(1), 8 of 2014 w.e.f.1.4.2014*

segregates such life insurance business and the general insurance business into two separate companies, as required by section 53 of the Regulation of Insurance Industry (Amendment) Act, No. 3 of 2011, incurred any loss prior to such segregation of which the entirety or any part thereof had not been deducted previously, the balance, if any, as at the date of such segregation shall, notwithstanding anything to the contrary in any other provision of this Act, but subject to the provisions of paragraph (*b*), be deducted from the total statutory income of the respective companies in the following manner:-

(i) such part of the loss as attributable to the life insurance business, from the total statutory income of the company which carries on long term insurance
business;

(ii) such part of the loss as attributable to the general insurance business, from the total statutory income of the company which carries on general insurance business.

(d) Any loss incurred on or after April 1, 2008, in any business of finance leasing to the extent of any profits from such business included in such total statutory income and the balance, if any, of such loss after such deduction, shall be deemed to be a loss for the year of assessment immediately succeeding that year of assessment.

$ 20, 9 of 2008
w.e.f.01.04.2008

(dd) the balance , if any, of any loss deductible under the provisions of this Act , of any business of any bank, financial institution or leasing company which is consolidated, acquired or merged in terms of the guidelines issued by the Central Bank of Sri Lanka subject to conditions specified in the guidelines issued by the Commissioner General, shall continue to be deducted, if it would have been claimed under this section prior to such consolidation, acquisition or merger, notwithstanding anything to the contrary in any other provision of this Act, but subject to the provisions of paragraph (*b*), from the total statutory income of the respective bank, financial institution or leasing company as a result of such consolidation, acquisition or merger;

[$ 9(2), 9 of 2015]

(e) where any person commenced to carry on any business the annual turnover of which does not exceed rupees five hundred million, any commencement expenses other than the capital expenses incurred by that person in the year of assessment immediately preceding the year of assessment in which the commercial operation of such business is

$ 14, 8 of 2012
w.e.f.01.04.2012

commenced, shall be deducted from the total statutory income of that person for that year of assessment in which commercial operation commenced.

(6) (*a*) Where the profits and income of an undertaking were exempt from income tax under section 16, section 16A, section 16B, section 16C, section 16D, section 17, section 17A, section 18, section 20, section 21, section 22, section 23, section 24, section 24A section 24B, section 24C or section 24D of this Act, or under section 17, section 18, section 19, section 20, section 21A, section 21B, section 21C, section 21D, section 21E, section 21F, section 21G or section 21H of Inland Revenue Act, No. 38 of 2000 or under section 16C or section 17A or section 17C or section 17D or section 17G or section 17H or section 17J or section 17JJ or section 22A, section 22B, or section 22C or section 22D or section 22DD or section 22DDD or section 22DDDD of the Inland Revenue Act, No. 28 of 1979, for any period (such period being referred to in this paragraph as the exempt period), there shall be deducted from the total statutory income of the person who carries on that undertaking in the year of assessment in which such exemption ceases to apply, the excess, if any, of– *$ 20, 9 of 2008 w.e.f.01.04.2008* *$ 14(2), 8 of 2014*

(i) the total of any losses incurred by such person in such undertaking in any year of assessment during the exempt period, over

(ii) such profits and income of that undertaking as were exempt from income tax for any year of assessment during the exempt period succeeding the year of assessment in which such loss in that undertaking was incurred.

(*b*) Where the entirety or any portion of the balance of such losses referred to in paragraph (*a*) cannot be deducted from the total statutory income of such person for the year of assessment referred to in paragraph (*a*), the residue, if any, of such entirety or of such portion, after its deduction from the total statutory income of such person for that year of assessment, shall be deemed to be a loss incurred by such person in that undertaking in the year of assessment immediately succeeding that year of assessment, and may accordingly be deducted in the manner provided for in paragraph (*b*) of subsection (5) *$ 12, 10 of 2007 w.e.f.30.03.2007*

(7) The amount of a loss from any trade, business, profession or vocation shall be ascertained in the manner provided for in this Act for the ascertainment of profits from a trade, business, profession or vocation. *$ 20, 9 of 2008 w.e.f.01.04.2008*

(8) Where the total statutory income of any child for any year of

assessment is aggregated with, and deemed to be a part of, the total statutory income of his parent for that year of assessment, any sum which could be deducted from the total statutory income of such child under the provisions of this section shall be deducted from the total statutory income of such parent.

CHAPTER VII

ASCERTAINMENT OF TAXABLE INCOME

33. (1) The taxable income of an individual or a charitable institution who or which is resident in Sri Lanka in any year of assessment shall be the assessable income of that individual or that institution for that year of assessment after deducting there from the aggregate of— Taxable Income.

(a) an allowance of- *$ 17,22 of 2011 w.e.f.01.04.2011*

(i) three hundred thousand rupees in respect of any year of assessment commencing prior to April 1, 2011; and

(ii) five hundred thousand rupees in respect of any year of assessment commencing on or after April 1, 2011, and

(b) any allowance to which such individual or institution is entitled under section 34 :.

Provided that an individual who is a trustee, receiver, executor or liquidator shall not be entitled to deduct the allowance referred to in paragraph (*a*) as such trustee, receiver, executor or liquidator;

Provided further, that for any year of assessment commencing on or after April 1, 2011— *$ 17,22 of 2011 w.e.f.01.04.2011*

(i) any individual being a citizen of Sri Lanka irrespective of whether such individual is resident in Sri Lanka or not, shall be entitled to deduct the allowance referred to in paragraph (*a*); and

(ii) an individual shall not be entitled to deduct any part of any allowance under section 34, other than the allowance referred to in paragraphs (*u*) and (*v*) of subsection (2) of section 34, from any employment income which is included in such assessable income. *$ 15, 8 of 2014 w.e.f.01.04.2014*

(2) The taxable income of any person (other than any resident individual or any charitable institution) for any year of assessment shall be the assessable income for that year of assessment of that person after deducting there from any allowance to which such

person is entitled under section 34.

34. (1) Subject to the provisions of subsection (4), there shall be deducted, for the purposes of section 33, from the assessable income of a person for any year of assessment in respect of every qualifying payment made by him or deemed to have been made by him in that year of assessment, an allowance equal to the amount of such qualifying payment.

An allowance in respect of qualifying payments.

(2) In this section, "qualifying payment" means–

(*a*) a donation made by any person in money to an approved charity being a charity which is established for the provision of institutionalized care for the sick or the needy;

$ 18,22 of 2011 w.e.f.01.04.2011

(*b*) a donation made in money or otherwise to–

(i) the Government of Sri Lanka;

(ii) a local authority;

(iii) any Higher Educational Institution established or deemed to be established under the Universities Act, No. 16 of 1978;

(iv) the Buddhist and Pali University or any Higher Educational Institution established by or under the Buddhist and Pali University Act, No. 74 of 1981;

(v) a fund established by the Government of Sri Lanka,

(vi) a fund established by a local authority and approved by the Minister ;

(vii) the Sevana Fund created and administered by the National Housing Development Authority established by the National Housing Development Authority Act, No. 17 of 1979.

(viii) a fund established by a Provincial Council and approved by the Minister.
Proviso is deleted (10 of 2007)

$ 13, 10 of 2007 w.e.f.30.03.2007

(ix) the Api Wenuwen Api Fund established by Api Wenuwen Api Fund Act, No. 6 of 2008,

$ 21, 9 of 2008 w.e.f.01.01.2008

(x) National Kidney Fund established under the National Kidney Foundation of Sri Lanka (Incorporation) Act, No. 34 of 2006;

[$ 10(1)(a), 9 of 2015]

Provided where the fund referred to in sub-paragraph (v) of this paragraph is the President's Fund established by the President's Fund Act, No.7 of 1978 and any public corporation is required in terms of the law by or under which such corporation is established to remit any profits of such corporation to the President's Fund, the profits so remitted shall be deemed for the purpose of this paragraph, to be donations made to such Fund; *$ 10, 19 of 2009 w.e.f.01.04.2009*

(*c*) expenditure incurred by any person on any project included in a development plan of the Government of Sri Lanka, if such expenditure was incurred–

(i) with prior written approval of the Minister; and

(ii) in accordance with such terms and conditions as may have been specified by the Minister at the time of granting such approval, such approval being granted and such terms and conditions being specified by the Minister, having regard to the development priorities of the Government;

(*d*) any amount paid prior to April 1, 2011, by an individual as a contribution to a provident fund for self employed persons, approved by the Commissioner-General for such purpose; *$ 18,22 of 2011*

(*e*) any contribution made prior to April 1,2011, by an individual to such provident fund or pension fund as is approved by the Commissioner-General or to a regulated provident fund, where no part of the emoluments from which such contributions are made is exempt from income tax under paragraph (*b*) of section 8 : *$ 10, 19 of 2009 w.e.f.01.04.2006*

[$ 18,22 of 2011 w.e.f.01.04.2011]

Provided that where such contribution exceeds twelve *per centum* of such emoluments, such excess shall be deemed not to comprise a qualifying payment.

(*f*) a donation made prior to April 1, 2011, by any person in money to– *[$ 18,22 of 2011 w.e.f.01.04.2011]*

(i) the Industrial Technology Institute established by the Science and Technology Development Act, No. 11of 1994 ;

(ii) the Sri Lanka Foundation Institute established by the Sri Lanka Foundation Law, No. 31 of 1973;

(iii) the Tower Hall Theatre Foundation, established by the Tower Hall Theatre Foundation Act, No. 1 of 1978;

(iv) the Sri Lanka Inventors Commission, established by

the Sri Lanka Inventors Incentives Act, No. 53 of 1979;

(v) the S W R D Bandaranaike National Memorial Foundation, established by the S W R D Bandaranaike National Memorial Foundation Law, No. 2 of 1975;

(vi) the Institute of Fundamental Studies, Sri Lanka, established by the Institute of Fundamental Studies, Sri Lanka, Act, No. 55 of 1981;

(vii) the International Winged Bean (Dambala) Institute, established by the International Winged Bean (Dambala) Institute Act, No. 7 of 1982;

(viii) the Sri Lanka Institute of Printing, established by the Sri Lanka Institute of Printing Act, No. 18 of 1984;

(ix) the Arthur C. Clarke Institute for Modern Technologies, established by the Science and Technology Development Act, No. 11 of 1994;

(x) the Institute of Policy Studies of Sri Lanka, established by the Institute of Policy Studies of Sri Lanka Act, No. 53 of 1988;

(xi) the J R Jayawardena Centre, established by the J R Jayawardena Centre Act, No. 77 of 1988;

(xii) the Institution of Engineers, Sri Lanka, incorporated by the Institution of Engineers, Sri Lanka Act, No.17of 1968; *$ 10, 19 of 2009 w.e.f.01.04.2009*

(*g*) any premia in any year of assessment, being premia which have accrued due for payment—

(i) on a life insurance policy (not being a pure endowment policy) the premia in respect of which are payable annually over a period of not less than three years;

(ii) on a policy of medical insurance other than any policy referred to in paragraph (gg),

not being premia paid outside Sri Lanka in respect of any such policy issued outside Sri Lanka;

(*gg*) any premia in any year of assessment commencing on or after April 1, 2011, being pemia which have accrued due for payment on a policy of special health insurance which covers any incurable disease *[$ 18,22 of 2011 w.e.f.01.04.2011]*

(h) (i) expenditure incurred by any person in the production at a cost of not less than five million rupees, of any film the production of which was completed prior to April 1, 2007; or *$ 21, 9 of 2008 w.e.f.01.04.2008*

(ii) Expenditure incurred by any person in the production at a cost of not less than five million rupees, of any film the production of which was completed after April 1, 2007:

Provided however that any expenditure referred to in this paragraph shall, for the purposes of subsection (1) be deemed to have been incurred in the year of assessment in which the production of such film is completed.

For the purposes of this paragraph the expression–

(i) "expenditure" in relation to the production of a film includes any expenditure incurred in the promotion of that film, within a period of ninety days from the date of completion of the production of such film;

(ii) "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*) any expenditure incurred prior to April 1, 2011, otherwise than out of a loan referred to in paragraph (*j*) by an individual in either the construction or the purchase of a house, being in either case the first house, constructed or purchased by such individual on or after April 1, 2001; *$ 18,22 of 2011*

(j) any expenditure incurred prior to April 1, 2011 by an individual on the repayment of the capital of any approved housing loan, either for the construction or the purchase of a house, being in either case the first house constructed or purchased by such individual on or after April 1, 2001. *$ 18,22 of 2011*

For the purpose of this paragraph "approved housing loan" means any housing loan obtained from the Government, or any banking institution within the meaning of the Monetary Law Act (Chapter 422), or from any Provincial Fund, any local authority or any other institution, approved by the Minister in charge of the subject of Housing.

(*k*) fifty *per centum* of any investment of not less than rupees five hundred thousand in any year of assessment in the purchase by any person of ordinary shares, other than the

existing shares, issued by a venture capital company during the period that such company is exempted from income tax under section 23 ;

(l) any sum invested by any company and referred to in paragraph (c) of subsection (2) of section 20 ;

(*m*) the expenditure referred to in paragraph (*c*) of subsection (2) of section 21.

(n) expenditure not exceeding twenty five million rupees incurred in the construction and equipping of a cinema, being a cinema – *$ 21, 9 of 2008 w.e.f.01.04.2008*

(i) in which the exhibition of cinematographic films commences on or after April 1 2008; and

(ii) which is 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 system and Dolby Sound Systems;

(o) expenditure not exceeding ten million rupees incurred in the upgrading of a cinema, being a cinema- *$ 21, 9 of 2008 w.e.f.01.04.2008*

(i) in which the exhibition of cinematographic films had commenced prior to April 1, 2008;

(ii) which was not equipped with digital technology, digital Theatre systems and Dolby Sound Systems, prior to April 1, 2008; and

(iii) which is 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 on or after April 1, 2008, with digital technology, digital Theatre systems and Dolby systems; *$ 21, 9 of 2008 w.e.f.01.04.2008* *$ 21, 9 of 2008 w.e.f.01.04.2008*

(p) expenditure incurred by any company in the relocation of any relocated undertaking referred to in subsection (2) of section 21A; *$ 15, 8 of 2012*

(q) any sum invested by any person in an undertaking referred to in paragraph *(zzz)* of section 13;

(r) expenditure incurred by any person in any community development project carried on in any economically marginalized village as identified and published in the *Gazette* by the Commissioner- General; *$ 15, 8 of 2012 w.e.f.01.04.2012*

(s) investment of not less than fifty million rupees in the acquisition of fixed assets made by any person on or after April1, 2011 but before April 1, 2014 in the expansion of any undertaking which would have been qualified for exemption under section 16C or section 17A had such undertaking commenced to carry on business on or after April 1, 2011:

$ 15, 8 of 2012 w.e.f.01.04.2011

$ 16(1), 8 of 2014

[$ 10(1)(b), 9 of 2015] (Substitution)

Provided however, where such investment is made in any high tech plant, machinery or equipment which is acquired for energy efficiency purposes or for technology upgrading purposes or introducing any new technology or for power generation using renewable energy resources in the expansion of such undertaking on or after April 1, 2011, but prior to April 1, 2015 such investment shall comprise a qualifying payment.

(t) investment of not less than any sum referred to in Column II of the Schedule to section 16D of this Act made in fixed assets in any undertaking engaged in the manufacture of any product referred to in Column I of that Schedule, being an investment which would have qualified such undertaking for exemption under section 16D, referred to above had such undertaking commenced to carry on business on or after April 1, 2012;

$ 15, 8 of 2012 w.e.f.01.04.2012

(u) where the profits from employment of any individual who is a citizen of Sri Lanka or resident in Sri Lanka other than profits referred to in paragraph (*c*) of subsection (1) of section 4, exceeds five hundred thousand rupees, for any year of assessment commencing on or after April 1, 2013, then-

$ 13, 18 of 2013 w.e.f.01.04.2013

$ 16(1), 8 of 2014 w.e.f.01.04.2014

[$ 10(1(c)), 9 of 2015]

(i) such part of profits in excess of five hundred thousand rupees ; or

(ii) for any year of assessment ended prior to April 1, 2015, one hundred thousand rupees and for any year of assessment commencing on or after April 1, 2015, two hundred and fifty thousand rupees,

whichever is lower;

(v) such part of official emoluments arising in Sri Lanka to any individual who is not a citizen of Sri Lanka and not resident in Sri Lanka–

$ 13, 18 of 2013 w.e.f.01.04.2013

[$ 10(1)(d), 9 of 2015]

(Substitution)

(i) for any year of assessment commencing on or after April 1, 2013, but prior to April 1, 2015 does not exceed one hundred thousand rupees; or

(ii) for any year of assessment commencing on or after April 1, 2015 does not exceed two hundred and fifty thousand rupees;

(w) any expenditure incurred not exceeding six hundred thousand rupees for any year of assessment commencing on or after April 1, 2014 on the repayment of the capital of a loan obtained from any bank licensed under the Banking Act, No. 30 of 1988 or any finance company licensed under the Finance Business Act, No. 42 of 2011, of which the proceeds are utilized to construct a house or to purchase a house or a unit of a residential apartment complex, by an individual who is a professional and who furnishes a return under section 106, whether such individual obtained such loan alone or together with any other individual: *$ 16(1), 8 of 2014*

Provided that, if such loan is obtained together with another individual or obtained for a co-owned property, such deduction shall not exceed the amount of expenditure attributable to such individual who obtained such loan.

For the purpose of this paragraph, "professional" shall have the same meaning as given for that expression in section 40C; and

(x) any expenditure incurred by any bank, any financial institution or any leasing company, by way of cost of acquisition or merger of any other bank, any other financial institution or any other leasing company, where such cost is ascertained by considering all the facts on case by case basis in accordance with the guidelines issued by the Central Bank of Sri Lanka, in the manner specified by the Commissioner General for that purpose. *$ 16(1), 8 of 2014 w.e.f.01.04.2014 (Repealed)*

[$ 10(1)(e), 9 of 2015]

(Substitution)

(3) Where the total statutory income of any child for any year of assessment is aggregated with, and deemed to be a part of, the total statutory income of his parent for that year of assessment, any qualifying payment made by that child in that year of assessment shall be deemed to be a qualifying payment made by such parent.

(4) The deduction from the assessable income of any—

(*a*) person, other than a company, for any year of assessment—

(i) in respect of all qualifying payments other than those referred to in Paragraphs (a), (b), (c), (e), (g), (gg), (h), (i), (j),(k),(n), (o), (q), (r), (s), (t), (u) ,(v) and (w) of subsection (2) made by him or deemed to have been made by him in any year of assessment shall not exceed one third of such assessable income or twenty five thousand rupees whichever is less ; *$ 21, 9 of 2008 w.e.f.01.04.2008 $ 18,22 of 2011 $ 15, 8 of 2012 w.e.f.01.04.2012 $ 13, 18 of 2013 w.e.f.01.04.2013 $ 16(2) 8 of 2014 w.e.f.01.04.2014*

(ii) in respect of all qualifying payments referred to in paragraph (c) of subsection (2), made by him or deemed to have been made by him in that year of assessment shall not exceed twenty five thousand rupees ;

(iii) in respect of any qualifying payment referred to in paragraph (h) of subsection (2), deemed to have been made by him in that year, of assessment shall not exceed:— *$ 13, 10 of 2007 w.e.f.30.03.2007*

(A) ten million rupees, where such year of assessment is the year of assessment commencing on April 1, 2006; and

(B) thirty five million rupees, where such year of assessment is any year of assessment commencing on or after April 1, 2007; *$ 21, 9 of 2008 w.e.f.01.04.2008*

(iv) in respect of the aggregate of all qualifying payments made and referred to in paragraphs (a), (e) and (g) of subsection (2), shall not exceed seventy five thousand rupees or one third of such assessable income whichever is less ;

(v) in respect of all qualifying payments referred to in paragraphs (i) and (j) of subsection (2) made by him in that year of assessment, shall not exceed one third of the assessable income or one hundred thousand rupees whichever is less ;

(vi) in respect of all qualifying payments referred to in paragraphs (k) of subsection (2) made by him in that year of assessment, shall not exceed one third of his assessable income or such qualifying payment whichever is less ;

(vii) in respect of all qualifying payments referred to in paragraph (n) of subsection (2) made by him in that year of assessment, shall not exceed ten million rupees; *$ 21, 9 of 2008 w.e.f.01.04.2008*

(viii) in respect of all qualifying payments referred to in paragraph (o) of subsection (2) made by him in that year of assessment, shall not exceed ten million rupees; *$ 21, 9 of 2008 w.e.f.01.04.2008*

(ix) in respect of all qualifying payments referred to in paragraph (r) of subsection (2) made by him in that year of assessment shall not exceed one million rupees; *$ 15, 8 of 2012 w.e.f.01.04.2012*

(x) in respect of all qualifying payments— *$ 15, 8 of 2012 w.e.f.01.04.2011*

(A) referred to in paragraph (*s*) of subsection (2) made by him in that year of assessment shall not exceed twenty five *per centum* of such qualifying payment:

Provided however, where investments made in more than one year of assessment are aggregated to reach the minimum investment to qualify for deduction as qualifying payment, such investment made in any previous year of assessment (being any year of assessment commencing on or after April 1, 2011) shall be deemed to be an investment made in the year of assessment in which the fifty million rupees aggregate is reached;

(B) referred to in paragraph (*t*) of subsection (2) made by him in that year of assessment shall not exceed twenty five *per centum* of such qualifying payment: *$ 15, 8 of 2012 w.e.f.01.04.2012*

Provided however, where investments made in more than one year of assessment are aggregated to reach the minimum investment to qualify for deduction as qualifying payment, such investment made in any previous year of assessment (being any year of assessment commencing on or after April 1, 2012) shall be deemed to be an investment made in the year of assessment in which the respective minimum investment referred to in section 59C is reached;

(*b*) a company, for any year of assessment–

(i) in respect of all qualifying payments other than those referred to in paragraphs (b), (h), (k) , (l), (m), (n), (o), (q), (r), (s) (t) and (x) of subsection (2), made by that company or deemed to have been made by that company in that year of assessment shall not exceed one-fifth of such assessable income; *$ 21, 9 of 2008 w.e.f.01.04.2008* *$ 15, 8 of 2012 w.e.f.01.04.2012* *$ 16(2), 8 of 2014 w.e.f.01.04.2014*

(ii) in respect of any qualifying payment referred to in paragraph (h) of subsection (2), made by that company in that year, of assessment shall not exceed:— *$ 13, 10 of 2007*

(A) ten million rupees, where such year of assessment is the year of assessment commencing on April 1, 2006; and

(B) thirty five million rupees, where such year of assessment is any year of assessment commencing on or after April 1, 2007; *$ 21, 9 of 2008 w.e.f.01.04.2008*

(iii) in respect of all qualifying payments referred to in paragraph (k) of subsection (2), made by that company shall not exceed one-fifth of its assessable income or such qualifying payment, whichever is less ;

(iv) in respect of all qualifying payments, referred to in paragraph (l) of subsection (2), made by that company, shall not exceed one hundred million rupees, or such qualifying payment, whichever is less.

(v) in respect of all qualifying payments referred to paragraph (a) of subsection (2) by made by that company, shall not exceed one fifth of the assessable income or five hundred thousand rupees, whichever is less; *$ 21, 9 of 2008 w.e.f.01.04.2008*

(vi) in respect of all qualifying payments referred to in paragraph (n) of subsection (2) made by that company in that year of assessment, shall not exceed twenty five million rupees; *$ 21, 9 of 2008 w.e.f.01.04.2008*

(vii) in respect of all qualifying payments referred to in paragraph (o) of subsection (2) made by that company in that year of assessment, shall not exceed ten million rupees; *$ 21, 9 of 2008 w.e.f.01.04.2008*

(viii) in respect of all qualifying payments referred to in paragraph (r) of subsection (2) made by that company in that year of assessment shall not exceed ten million rupees; *$ 15, 8 of 2012 w.e.f.01.04.2012*

(ix) in respect of all qualifying payments— *$ 15, 8 of 2012 w.e.f.01.04.2011*

(A) referred to in paragraph (*s*) of subsection (2) made by that company in that year of assessment shall not exceed twenty five per centum of such qualifying payment:

Provided however, where investments made in more than one year of assessment are aggregated to reach the minimum investment to qualify for deduction as qualifying payment, such investment made in any previous year of assessment (being any year of assessment commencing on or after April 1, 2011) shall be deemed to be an investment made in the year of assessment in which the fifty million rupees aggregate is reached;

(B) referred to in paragraph (*t*) of subsection (2) made by him in that year of assessment shall not exceed twenty five *per centum* of such qualifying payment: *$ 15, 8 of 2012 w.e.f.01.04.2012*

Provided however, where investments made in more than one year of assessment are aggregated to reach the minimum investment to qualify for deduction as qualifying payment, such investment made in any previous year of assessment (being any year of assessment commencing on or after April 1, 2012) shall be deemed to be an investment made in the year of assessment in which the respective minimum investment referred to in section 59C is reached;

(x) in respect of any qualifying payment referred to in paragraph *(x)* of subsection (2), on the expenditure incurred by any bank or other company referred to in that paragraph in any year of assessment shall not exceed one third of the assessable income or three hundred million rupees whichever is higher. The balance, if any, not deductible in the same year of assessment shall be carried forward and be deductible from the assessable income of such bank or other company for the next succeeding year of assessment and so on subject to the same conditions. *[$ 10(2), 9 of 2015]*

(5) The amount of any qualifying payment referred to in paragraph *(b)*, paragraph *(c)*, paragraph *(h)* (ii), paragraph *(l)*, paragraph *(m)*, paragraph *(n)*, paragraph *(o)* or paragraph *(q)* of subsection (2), made or deemed to have been made by any person in any year of assessment and which cannot be deducted from his assessable income for that year of assessment, shall be deducted from his assessable income for the next succeeding year of assessment and so on. *$ 21, 9 of 2008 w.e.f.01.04.2008*

(6) The excess of the allowance in respect of any qualifying payment referred to in paragraph (*h*) (i) of subsection (2) deemed to have been made in any year of assessment by any person, shall be deducted, to the extent it can be so deducted from the assessable income of that person for the year of assessment immediately succeeding that year of assessment, (hereinafter referred to as "the first succeeding year of assessment") and any residue of such excess shall be deducted from the assessable income of the year of assessment immediately succeeding the first succeeding year of assessment. *$ 21, 9 of 2008 w.e.f.01.04.2008*

(7) The excess of the allowance of any qualifying payment referred to in paragraph (*i*) of subsection (2) which cannot be deducted from the assessable income in the year of assessment in which such expenditure is incurred, may be apportioned over a period of not more than nine years immediately succeeding the year of

assessment in which such expenditure was incurred, and such apportioned amount shall be deemed to be a qualifying payment made in each such year of assessment.

$ 15, 8 of 2012 w.e.f.01.04.2012

(7A) The seventy five *per centum* of any qualifying payment referred to in sub-paragraph (x) of paragraph (*a*) or sub-paragraph (ix) paragraph (*b*) of subsection 4, may be apportioned in equal amounts over a period of three years of assessment immediately succeeding that year of assessment and such apportioned amount shall be deductible from the assessable income of that person in each such year of assessment.

(8) For the purposes of this section—

(*a*) an "approved charity" means an approved charity within the meaning of section 16A of the Inland Revenue Act, No. 4 of 1963, or under paragraph (*a*) of subsection (9) of section 31 of the Inland Revenue Act, No. 28 of 1979 or paragraph (*a*) of subsection (7) of section 31 of the Inland Revenue Act, No. 38 of 2000 or any such public charitable trust or institution as is declared by the Minister by notice published in the *Gazette* to be an approved charity for the purposes of this section;

(*b*) the amount of a donation made to the Government otherwise than in money, shall be the value of such donation and such value shall–

(i) be the cost incurred during that year of assessment by the donor of the property donated; or

(ii) where the cost incurred by the donor during that year of assessment cannot be ascertained or where no cost was incurred in that year of assessment, be the value of the property donated at the time of such donation.

CHAPTER VIII

RATES OF INCOME TAX ON PERSONS OTHER THAN COMPANIES.

35. Rates of income tax on persons other than companies.

(1) Subject as hereinafter provided, income tax shall be charged for each year of assessment on the taxable income for that year of assessment of any person–

(*a*) if he is an individual other than a receiver, trustee, executor or liquidator acting in such capacity in respect of any year of assessment, at the appropriate rates specified in Part I, Part IA or Part IB of the First Schedule to this Act;

$ 16, 8 of 2012

(*b*) if he is an individual who is not a citizen of Sri Lanka and is deemed by subsection (7) of section 79, to be non-resident, at the rate specified in Part II of the First Schedule to this Act; or

(*c*) if such person is a person other than a company or an individual to whom paragraph (*a*) applies, in respect of any year of assessment at the appropriate rates specified in the Third Schedule to this Act:

Provided that the income tax payable for any year of assessment by an individual, who is deemed to be nonresident under subsection (7) of section 79, shall not be more than the amount by which his assessable income for that year of assessment exceeds the allowance referred to in paragraph (*a*) of subsection (1) of section 33.

(2) Where in consequence of the inclusion in the statutory income of an individual for any year of assessment of–

(*a*) a sum received in commutation of a pension;

(*b*) a sum received as a retiring gratuity other than such part of such sum as exceeds—

(i) one million eight hundred thousand rupees; or

(ii) a sum equivalent to the average monthly salary or wage paid to such individual during the period of three years immediately preceding his retirement from any employment under the employer who pays such gratuity, multiplied by the number of completed years of service,

whichever is greater;

(*c*) any sum received as compensation for loss of office or employment;

(*d*) a sum paid to him, at the time of his retirement from any employment, or at any subsequent time, from a provident fund approved by the Commissioner- General other than such part of that sum as represents his contributions to that provident fund;

(*e*) any sum paid from a regulated provident fund to an employee (other than such part of that sum as represents the contributions made by the employer to that fund prior to April 1, 1968, and the interest which accrued on such contributions made by the employer, if in respect of such contributions made by the employer and the interest which

accrued on such contributions made by the employer, tax at the rate of fifteen *per centum* has been paid by the employer); or

(*f*) any sum paid to him at the time of his retirement from any employment or at any subsequent time, from the Employees' Trust Fund, established by the Employees' Trust Fund Act, No.46 of 1980,

his taxable income for that year of assessment exceeds that which would be his taxable income if no such aforementioned sum were included in his statutory income, the excess, notwithstanding anything contained in any other provision of this Act, shall be chargeable with tax at the appropriate rates specified in Part IV of the First Schedule to this Act, if such aforementioned sum has been paid by the employer of such individual, in accordance with a scheme which, in the opinion of the Commissioner-General, is uniformly applicable to all individuals employed by such employer. If any such aforementioned sum has been paid to such individual in accordance with a scheme which, in the opinion of the Commissioner-General, is not uniformly applicable to all individuals employed by such employer, his taxable income (inclusive of such excess) shall be chargeable with tax at the appropriate rates specified in "Part I, Part IA or Part IB of the First Schedule to this Act:

$ 16, 8 of 2012 w.e.f.01.04.2012

Provided however, that where the taxable income of an individual for any year of assessment includes any sum referred to in paragraph (*c*), which has been paid to such individual in accordance with a scheme which in the opinion of the Commissioner-General, is not uniformly applicable to all individuals employed by the employer of that individual, such sum is deemed to be income from employment within paragraph (*c*) of subsection (1) of section 4, and shall be chargeable with tax at the appropriate rate specified in the Part V of the First Schedule to this Act.

$ 22, 9 of 2008 w.e.f.01.04.2008

(3) Where any charitable institution provides in any year of assessment institutionalized care for the sick or the needy and where the Commissioner-General is satisfied that the cost of provision of such care is borne by such charitable institution, the Commissioner-General may, subject to such condition as he may specify, reduce or remit the tax payable by such charitable institution in respect of its profits and income for such year of assessment, if it appears to the Commissioner-General that such reduction or remission is just and equitable in all the circumstances of the case.

(4) Where a fund or society has been set up or formed for the welfare of the members of the Sri Lanka Army, Sri Lanka

Navy, Sri Lanka Air Force or the Sri Lanka Police Force and their respective families, the Commissioner-General may, subject to such conditions as he may specify, reduce or remit the tax payable by such fund or society, as the case may be, if it appears to the Commissioner-General that such reduction or remission is just and equitable in all the circumstances of the case.

CHAPTER IX

SPECIAL PROVISIONS RELATING TO THE TAXATION OF CERTAIN PROFITS AND OF DIVIDENDS OUT OF SUCH PROFITS

36. Special provision relating to taxation of interest on compensation payable in respect of property vested in the Government, the Land Reform Commission or a public corporation or a local authority.

(1) The provisions of this section shall apply to the interest payable on the compensation payable in respect of any immovable or movable property vested in the Government or in the Land Reform Commission or in a public corporation or in a local authority, such interest being the accumulated interest payable on such compensation for the period commencing on the date on which such compensation accrues is due, and ending on the date of payment of such compensation (in this section referred to as the "relevant interest").

(2) Notwithstanding anything to the contrary in any law–

(*a*) the relevant interest received by any person shall be deemed to be income arising to that person in the year of assessment in which he receives such interest and not in the year of assessment to which such interest relates, and such interest shall be liable to income tax at the appropriate rate specified in the Fifth Schedule to this Act ;

(*b*) the Government, the Land Reform Commission, the public corporation or the local authority paying the relevant interest to any person, shall deduct from such interest an amount equal to ten *per centum* of such interest and shall remit the amount so deducted to the Commissioner-General, with a statement in writing showing the particulars of the gross amount of the relevant interest payable, the tax deducted, the net amount paid, the name and address of the person to whom it is paid, and the amount so remitted shall be set off against the tax payable by such person under paragraph (*a*).

(3) In this section "Land Reform Commission" means the Land Reform Commission established by the Land Reform Law, No. 1 of 1972.

37. (1) The provisions of this section shall apply to the accumulated interest (in this section referred to as "the relevant interest") paid on a sum of money deposited in a banking institution by– Deduction of income tax from interest payable on certain deposit accounts.

(*a*) any individual; or

(*b*) another person on behalf of any individual, under a scheme approved by the Commissioner-General which—

(i) is operated by such banking institution; and

(ii) conforms to such conditions as may be specified from time to time, by the Commissioner-General.

The Commissioner-General shall, in specifying any matter which is required by this subsection to be specified by him, have regard to the need to encourage and facilitate savings.

(2) Notwithstanding anything to the contrary in this Act–

(*a*) the relevant interest paid to any individual shall be deemed to be income arising to such individual in the year of assessment in which such interest is paid to him and not in the year of assessment to which such interest relates, and such interest shall be liable to income tax at the appropriate rates specified in the Fifth Schedule to this Act ;

(*b*) the banking institution paying the relevant interest to such individual shall, notwithstanding anything in paragraph (*a*), deduct from such interest an amount equal to ten *per centum* of such interest, and shall forthwith remit the sum so deducted to the Commissioner-General;

(*c*) where a banking institution deducts income tax in accordance with paragraph (*b*) from the relevant interest paid to any individual, it shall issue to such individual a statement in writing setting out the gross amount of the relevant interest payable, the rate and amount of tax deducted and the net amount actually paid;

(*d*) where –

(i) any amount is deducted in accordance with paragraph (*b*) from the relevant interest paid to any individual ; and

(ii) the maximum rate at which such individual is liable to pay income tax for the year of assessment in which such deduction is made, in respect of profits and income (exclusive of the relevant interest) is less than ten *per centum*,

$ 14, 10 of 2007 w.e.f.30.03.2007

then such individual shall be entitled, on the production of the statement referred to in paragraph (*c*) and subject to the provisions of Chapter XXVIII to a refund of such percentage of the relevant interest as is equal to the difference between ten *per centum* and such maximum rate of tax.

$ 14, 10 of 2007 w.e.f.30.03.2007

(3) Where a banking institution which is required by subsection (2) to deduct any income tax from the relevant interest paid by it to any individual fails to deduct such income tax, then, the director, general manager or other principal officer of such banking institution, shall be personally liable for the tax which such institution, was required to deduct under this section, and such tax may be recovered from such director, general manager, or principal officer, by all the means provided for in this Act.

(4) Where any money is deposited in a banking institution by an individual under a scheme approved by the Commissioner-General under subsection (1), and such individual withdraws the interest on such money in contravention of the conditions imposed by the Commissioner-General in relation to such scheme, additional assessments may, notwithstanding anything in this Act, be made in respect of every year of assessment to which the interest so withdrawn relates.

38. The gross interest (not being interest exempt under any other provision of this Act), payable on a loan granted to any person in Sri Lanka by any company, partnership or other body of persons outside Sri Lanka, being interest which arises or is deemed, by section 93, to arise to such company, partnership or other body of persons shall, notwithstanding anything in this Act, be chargeable with income tax at the appropriate rate specified in the Fifth Schedule to this Act.

Rates of income tax on the gross interest on loans granted by a company, partnership or other body of persons outside Sri Lanka.

39. The gross royalty (not being royalty exempt under any other provision of this Act) payable by any person in Sri Lanka to any company, partnership or body of persons outside Sri Lanka, being royalty which arises or is deemed by section 94 to arise in Sri Lanka to such company, partnership or other body of persons shall, notwithstanding anything to the contrary in any other provision of this Act, be chargeable with income tax at the appropriate rate specified in the Fifth Schedule to this Act.

The rate of income tax on royalty payable to any company partnership or other body of persons outside Sri Lanka. *[$ 11, 9 of 2015]*

40. (1) Where an individual who is deemed, under subsection (7) of section 79 to be non-resident for a period of three years, continues to be employed in Sri Lanka after the expiry of such period, the profits from such employment of such individual for a period of two years commencing from the end of such period of three years shall, notwithstanding anything to the contrary in this Act, be chargeable with income tax at the rate specified in Part III of the First Schedule to this Act.

The rate of income tax on profits from employment, for a specified period of a non citizen employed in Sri Lanka.

(2) Where an individual who is employed in a flagship company and who is deemed under the proviso to subsection (7) of section 79 to be non-resident for a period of five years, continues to be employed in such flagship company after the expiry of such period, the profits from employment in such flagship company of such individual for the period commencing from the end of such period of five years and ending on the date on which —

(*a*) the exemption of the profits and income of such flagship company ceases under the terms of its agreement with the Board of Investment of Sri Lanka ; or

(*b*) a further period of five years from the end of such period of five years ends,

whichever occurs earlier, shall, notwithstanding anything to the contrary in this Act, be chargeable with income tax at the rate specified in Part III of the First Schedule to this Act.

In this subsection a "flagship company" means a company which has on or after November 8, 1995 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 and which has in accordance with such agreement invested in Sri Lanka within the period specified in such agreement, not less than fifty million United States Dollars or its equivalent in any other foreign currency—

(*a*) in the purchase or construction of any building or in the purchase of any land, plant, machinery or furniture ; and

(*b*) in the acquisition of any asset not included in paragraph (*a*),

for the use of the enterprise carried on by such company.

Rates of income tax on the profits from employment of any pilot

$ 11, 19 of 2009

$ 14, 18 of 2013 w.e.f.01.04.2013
$ 17, 8 of 2014

40A. Where the taxable income of any individual being a citizen of Sri Lanka, for any year of assessment commencing on or after April 1, 2008, but prior to April 1, 2014, includes any profits from employment as a pilot under any airline licensed under the Air Navigation Act (Chapter 365) (hereinafter in this section referred to as "relevant profits") and the rate of income tax payable on a part of such taxable income (hereinafter in this section referred to as the "relevant part of the taxable income") exceeds sixteen *per centum*, then in regard to the relevant part of the taxable income, the tax payable shall be computed as follows:-

(a) where such relevant part of the taxable income exceeds the amount of the relevant profits:-

(i) the tax payable on such portion of the relevant part of the taxable income as is equal to the amount of such relevant

profits, shall be computed at the rate of sixteen *per centum*; and

(ii) the tax payable on the balance of the relevant part of the taxable income, shall be computed according to such of the rates above sixteen *per centum*, as are applicable thereto, under the First Schedule to this Act; or

(b) where such relevant part of the taxable income does not exceed the amount of the relevant profits, the tax payable on the entirety of the relevant part of the taxable income, shall be computed at the rate of sixteen *per centum*.

40B (1) Where the taxable income for any year of assessment commencing on or after April 1, 2009 but prior to April 1, 2015, of any qualified individual, includes any profits from employment under any qualified person in foreign currency (hereinafter in this section referred to as "qualified profits") and the rate of income tax payable on a part of such taxable income (hereinafter in this section referred to as the " relevant part of the taxable income") exceeds sixteen *per centum*, then in regard to the relevant part of the taxable income, the tax payable shall, subject to the provisions of subsection (2), be computed as follows:-

Rate of tax on qualified profits of qualified individuals

$ 11, 19 of 2009

$ 13, 18 of 2013 w.e.f.01.04.2013

[$ 12, 9 of 2015]

(a) where the relevant part of the taxable income exceeds the amount of such qualified profits-

(i) the tax payable on such portion of the relevant part of the taxable income as is equal to the amount of such qualified profits, shall be computed at the rate of sixteen *per centum*; and

(ii) the tax payable on the balance of the relevant part of the taxable income, shall be computed according to such of the rates above sixteen *per centum*, as are applicable thereto under the First Schedule to this Act; or

(c) where such relevant part of the taxable income does not exceed the amount of the qualified profits, the tax payable on the entirety of the qualified part of the taxable income shall be computed at the rate of sixteen *per centum*.

(2) The provisions of subsection (1) shall not apply unless the qualified person referred to in that subsection certifies, that the aggregate of the qualified profits paid in any year of assessment to all qualified individuals employed by such qualified person, does not exceed the amount of the total earnings of such qualified person in foreign currency, the profits and income attributable to which are exempt from income tax under paragraph (*ddd*) of section 13or would have been exempt under that paragraph had such qualified person not entered into any agreement with the

Board of Investment of Sri Lanka under section 17 of the Board of Investment Law, No. 4 of 1978, and earned by such qualified person in the year of assessment immediately preceding that year of assessment.

(3) For the purposes of this section-

(a) "qualified individual" means an individual who is an employee of a qualified person, and who provides in the course of such employment any service, being a service rendered in the course of any profession or vocation as specified by the Commissioner-General under paragraph (*ddd)* of section 13; and

(b) "qualified person" means any person or partnership, the entirety or a part of whose profits and income are exempt from income tax under paragraph *(ddd)* of section 13 or would have been exempt under that paragraph and such person or partnership not entered into any 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.

40C (1) Where the taxable income of any individual:

Rates of income tax on the profits from employment of professionals
$ 18, 8 of 2014

[$ 13, 9 of 2015]

(i) being a citizen of Sri Lanka, for any year of assessment commencing on or after April 1, 2014 but prior to April 1, 2015, includes any profits from employment in the exercise of his duties as a professional; or

(ii) includes any profits from employment for any year of assessment commencing on or after April 1, 2015,

(hereinafter in this section referred to as "relevant profits") and the rate of income tax payable on a part of such taxable income (hereinafter in this section referred to as the "relevant part of the taxable income") exceeds sixteen *per centum*, then in regard to the relevant part of the taxable income, the tax payable shall be computed as follows:-

(a) where such relevant part of the taxable income exceeds the amount of the relevant profits:-

(i) the tax payable on such portion of the relevant part of the taxable income as is equal to the amount of such relevant profits, shall be computed at the rate of sixteen *per centum*; and

(ii) the tax payable on the balance of the relevant part of the taxable income, shall be computed according to such of the rates above sixteen *per centum*, as are applicable thereto, under the First Schedule to this Act; or

(b) where such relevant part of the taxable income does not exceed the amount of the relevant profits, the tax payable on the entirety of the relevant part of the taxable income, shall be computed at the rate of sixteen per centum.

(2) For the purpose of this section "professional" means a doctor registered under the Medical Ordinance (Chapter 105), a chartered engineer, a chartered architect, a member of the Institute of Chartered Accountants of Sri Lanka, a member of the Association of Chartered Certified Accountants, a member of the Chartered Institute of Management Accountants (U.K.) and an attorney-at-law, and includes a software engineer, a pilot licensed under the Air Navigation Act (Chapter 365), a navigation officer and a researcher or senior academic, recognized as an accredited professional.

41. The profits and income of any foreign currency banking unit arising from any off-shore foreign currency transaction shall, for any year of assessment be liable to income tax at the appropriate rate given in the Fifth Schedule to this Act.

Rate of income tax on profits and income of any foreign currency banking unit arising from any off-shore foreign currency transaction.

For the purposes of this section, any foreign currency transaction which any foreign currency banking unit enters into with any other foreign currency banking unit, shall be deemed to be an "off-shore foreign currency transaction".

42. (1) The profits and income, for the year of assessment commencing on April 1, 2006, arising in Sri Lanka to a consignor or consignee, from the export of–

Rate of income tax on profits and income arising in Sri Lanka to the consignor or consignee from certain exports.

(a) any precious stones or metals not mined in Sri Lanka ;

(*b*) any petroleum, gas or petroleum products; or

(*c*) such other products as may be approved by the Minister for the purposes of this paragraph, having regard to the foreign exchange benefits that are likely to accrue to the country from the export of such products,

$ 15, 10 of 2007

being goods brought to Sri Lanka on a consignment basis, and re-exported without subjecting such goods to any process of manufacture, shall be liable to income tax at the appropriate rate specified in the Fifth Schedule to this Act.

(2) The profits and income for any year of assessment commencing on or after April 1, 2007, but prior to April 1, 2011 arising in Sri Lanka to any consignor or consignee from the export of any goods brought to Sri Lanka on a consignment basis and re-exported without subjecting such goods to any process of manufacture, shall be liable to income tax at the appropriate rate specified in the Fifth Schedule to this Act.

$ 15, 10 of 2007

$ 19,22 of 2011

43. The profits and income arising to any person from an undertaking approved by the Minister for the operation and maintenance of facilities for the storage of goods or commodities brought into Sri Lanka for re-export, shall be liable to income tax at the appropriate rate specified in the Fifth Schedule to this Act.

Rate of income tax on profits and income arising from Certain undertaking approved by Minister.

44. The profits of any person other than a unit trust or mutual fund, from the sale on or before March 31, 2007, of any share or right to any share or a share warrant shall, where such sale takes place within two years from the date of acquisition of such share, right to a share or a share warrant, be liable at the appropriate rate specified in the Fifth Schedule to this Act :

Provided that the provisions of this section shall not apply in relation to the sale of any share, if in respect of such sale the share transaction levy under section 7 of the Finance Act, No. 5 of 2005 has been paid.

Rate of income tax on sale of any share or a warrant.
$ 16, 10 of 2007 w.e.f.30.03.2007

For the purposes of this section the "profits", includes gains and shall be computed, after deducting any expenditure allowable under section 25 directly related to the disposal of such shares and the cost of acquisition of such shares, from the sale proceeds, and shall be the net profit or gain for that year, after deducting losses incurred in the same year from the disposal of shares, rights or warrants, calculated in the same manner as mentioned above, had such loss been a profit or gain would have been liable to tax under this paragraph, have been held for a period not exceeding twenty four months by such person, and in the event that the sale comprises shares of the same company, acquired on different dates, the cost of such shares or the period of ownership shall be determined on a first in first out basis of such shares. Any excess of such deductible loss over the profits or gain for any year may be carried forward to the succeeding year and so on, and deducted in computing the net profits or gains under this paragraph.

45. (1) Where the taxable income of any person other than a company for any year of assessment includes any profits and income within the meaning of paragraph (*a*) of section 3 from any–

Rates of income tax on profits from certain undertakings carried on by a person other than a company.

(a) agricultural undertaking;

(*aa*) undertaking for the manufacture of animal feed;

$ 20,22 of 2011 w.e.f.01.04.2010

(b) undertaking for the promotion of tourism ;

(c) undertaking for construction work ; or

(d) undertaking for the manufacture of sugar,

[$ 14(1), 9 of 2015]

hereinafter in this section referred to as "specified profits", such specified profits shall, subject to the other provisions of this Act, be chargeable with tax at the appropriate rate specified in the Fifth Schedule to this Act.

$ 17, 10 of 2007 w.e.f.30.03.2007

(2) For the purposes of subsection (1)—

(a) "agricultural undertaking" includes any undertaking for—

(i) fishing; and

(ii) provision of the services of management to any undertaking for cultivating land with plants of whatever description ;

(b) profits and income from any agricultural undertaking means–

(i) in the case of an undertaking referred to in sub-paragraph (ii) of paragraph (*a*), the profits and income from fees for providing the services of management; and

(ii) in any other case, the profits and income from the sale of produce of such undertaking without subjecting such produce to any process of production or manufacture;

(c) "undertaking for construction work" means an undertaking carried on by a resident person for the construction of any–

(i) building;

(ii) roads or bridges;

(iii) water supply, drainage or sewerage system; or *$ 17, 8 of 2012*

(iv) harbour, airport or any infrastructure project in telecommunication or electricity; *$ 17, 8 of 2012 w.e.f.01.04.2012*

(d) "undertaking for the promotion of tourism" means an undertaking for the operation of–

(i) any hotel or guest house approved by the Ceylon Tourist Board;

(ii) any restaurant graded by the Ceylon Tourist Board as being in "Class A" or "Class B";

(iii) any business of travel agent;

(iv) any business of transporting tourists; or

(v) any business approved by the Ceylon Tourist Board for providing facilities for recreation or sports.

(e) undertaking for the manufacture of sugar" means an undertaking carried on for locally manufacturing sugar by using sugar cane or beet or any other produce exclusively cultivated locally. *[$ 14(2), 9 of 2015]*

46. (1) Where the taxable income of any company for any year of assessment includes any profits and income within the meaning of paragraph (*a*) of section 3 from any–

Rate of income tax on profits from certain Undertakings carried on by a company.
$ 21,22 of 2011
w.e.f.01.04.2010

(*a*) agricultural undertaking;

(*aa*) undertaking for the manufacture of animal feed;

(*b*) undertaking for the promotion of tourism;

(c) undertaking for construction work; or

(d) undertaking for manufacture of sugar,

[$ 15(1), 9 of 2015]

such part of such taxable income as consists of such profits and income shall, notwithstanding anything to the contrary in other provisions, but subject to the provisions of section 16 of this Act, be chargeable with income tax at the appropriate rate specified in the Fifth Schedule to this Act.

$ 24, 9 of 2008
w.e.f.01.04.2008

(2) For the purposes of subsection (1) ,the expressions "agricultural undertaking", "undertaking for the promotion of tourism", the "profits and income from any agricultural undertaking", "undertaking for construction work" and "undertaking for the manufacture of sugar" , shall have the respective meanings assigned to them in section 45 of this Act.

[$ 15(2), 9 of 2015]

46A Where the taxable income of any person for any year of assessment includes any profits and income within the meaning of paragraph (a) of section 3 (other than any profits and income from the disposal of any capital asset) from poultry farming, such part of such taxable income as consists of such profits and income shall, notwithstanding anything to the contrary in other provisions, be chargeable with income tax at the appropriate rate specified in the Fifth Schedule to this Act.

Rates of income tax on profits from poultry farming.
$ 16, 18 of 2013
w.e.f.01.04.2013

For the purposes of this section "profits and income from poultry farming" means such profits and income from the sale of produce by such person without subjecting such produce to any process of production or manufacture.

47. (1) Where the taxable income of any company carrying on the business of a specialized housing bank for any year of assessment commencing prior to April 1, 2011 includes any profits and income within the meaning of paragraph (*a*) of section 3 from such business, such part of such taxable income as consists of such profits and income shall, notwithstanding anything to the contrary in this Act, be chargeable with income tax at the appropriate rate specified in the Fifth Schedule to this Act.

Rate of income tax applicable to Specialized housing banks.

$ 22,22 of 2011

(2) For the purposes of this section "specialized housing bank" means a licensed commercial or specialized bank within the meaning of the Banking Act, No. 30 of 1988 and which is engaged in lending money only for activities relating to residential housing.

48. (1) Such part of the taxable income of any person for any year of assessment referred to in subsection (2), which consists of the profits and income from :-

Rates of income tax for periods after the expiry of the tax exemption period.

$ 25, 9 of 2008 w.e.f.01.04.2008

(a) any specified undertaking referred to in sections 17, 18 or 19

(b) any new undertaking referred to in sections 20, 22, 24C and 24D;

(c) any relocated undertaking referred to in sections 21 and 21A;

(d) any venture capital company referred to in section 23;

(e) any business referred to in section 24;

(f) any new cinema or upgraded cinema referred to in section 24A; or

(g) any re-opened abandoned factory referred to in section 24B.

shall, not withstanding anything to the contrary in any other provision of this Act, be taxable at the rate specified in that subsection, as being applicable to that year of assessment.

i. The rate of tax applicable to the year of assessment immediately succeeding –

(a) the end of the period for which the profits and income are exempt from income tax, being any year of assessment commencing on or after April 1, 2008. (hereinafter referred to as the "first post-exemption year") shall be five *per centum*;

(b) the end of the first post-exemption year (hereinafter referred to as the "second post-exemption year") shall be ten *per centum*; and

(c) the end of the second post-exemption year shall be fifteen *per centum*.

48A. Such part of the profits and income from any agricultural undertaking referred to in section 16, included in the taxable income of any person for any year of assessment commencing on or after April 1, 2011 shall, notwithstanding anything to the contrary in any other provisions of this Act, be taxable at the appropriate rate specified in the Fifth Schedule to this Act.

Rate of income tax after the expiry of tax exemption under section 16
$ 23,22 of 2011 w.e.f.01.04.2011

48B. Such part of the profits and income from any strategic import replacement undertaking referred to in section 16D, included in the taxable income of any person for any year of assessment commencing after the date of expiry of tax exemption under that section, shall notwithstanding anything to the contrary in any other provisions of this Act, be taxable at the appropriate rate specified in the Fifth Schedule to this Act.

Rate of income tax applicable to strategic import replacement undertaking after the expiry of the period of exemption.

$ 18, 8 of 2012 w.e.f.01.04.2012

48C Where any undertaking which 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, which provides for tax concessions, and the taxation under such agreement after the expiry of the tax exemption period provided there under is more burdensome than the taxation under the Inland Revenue Act, the profits and income of such undertaking after the expiry of such tax exemption period shall be chargeable with income tax in accordance with the provisions of the Inland Revenue Act, provided such undertaking shall not seek any further tax concession in respect of such agreement through any supplementary agreement.

Rate of income tax applicable to BOI registered undertakings after the expiry of the period of tax exemption.

$ 17, 18 of 2013 w.e.f.01.04.2013

48D Notwithstanding the period specified in section 16D or paragraph (*b*) and (*c*) of subsection (2) of section 17A to complete investment and to commence the commercial operations by any new undertaking which has been approved by the Board of Investment of Sri Lanka by entering into an agreement under section 17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978 which provides tax holiday under section 16D or section 17A of this Act, if the approval of the Board of Investment was granted prior to October 31, 2014 and the company which invested in such undertaking is unable to complete the required investment prior to April 1, 2015 and to commence commercial operations prior to April 1, 2016 due to any practical reasons depending on the nature of the business, such period shall be extended up to April 1, 2018, if the Commissioner-General is satisfied that the nature of the activities engaged in by such new undertaking are only activities qualified under section 16D or section 17A and the Board of Investment of Sri Lanka confirms , on request made by the investor, that the reasons for such extension is justifiable and acceptable by examining the status of the progress of such new undertaking.

Extension of the period specified for the fulfillment of investment criteria by any company entered into an agreement with the Board of Investment of Sri Lanka under section 16D or section 17A

[$ 16, 9 of 2015]

49. Where the taxable income of any person other than a company for any year of assessment includes any dividend, being a dividend,–

Rate of income tax on dividends paid out of profits taxed in accordance with section 46.

(*a*) out of profits and income referred to in section 46; or

(*b*) paid out of any such dividend as is referred to in paragraph (*a*) received by any company directly from a company referred to in section 46 or through one or more intermediary companies, if the first mentioned dividend is paid during the year of assessment in which the profits and income referred to in section 46 arose or accrued or within two years from the end of that year of assessment,

then such part of such taxable income as consists of such dividend, shall be chargeable with income tax at the appropriate rate specified in the Fifth Schedule to this Act.

50. Where any person not being a company commences on or after November 10, 1993, to carry on any specified undertaking and the taxable income of that person for any year of assessment includes any qualified export profits and income, such income shall be chargeable with tax at the appropriate rate specified in the Fifth Schedule to this Act.

Rate of income tax on qualified export profits and income of person not being a company, who commenced to carry on any specified undertaking.
$ 19,8 of 2014 w.e.f.01.04.2014

51. Where any company commences on or after November 10, 1993, to carry on any specified undertaking and the taxable income of that company for any year of assessment includes any qualified export profits and income, such part of the taxable income of that company for that year of assessment as consists of such qualified exports profits and income shall, notwithstanding anything to the contrary in this Act, be chargeable with income tax at the appropriate rate specified in the Fifth Schedule to this Act.

Rate of income tax on qualified export profits and income of a company which commenced to carry on any specified undertaking.
$ 20, 8 of 2014 w.e.f.01.04.2014

52. Where any company commenced prior to November 10, 1993, to carry on any specified undertaking and the taxable income of that company for any year of assessment includes any qualified export profits and income from such specified undertaking, such part of such taxable income as consists of such qualified export profits and income, shall, notwithstanding anything to the contrary in this Act, be chargeable with income tax at the appropriate rate specified in the Fifth Schedule to this Act.

Rate of income tax on qualified export profits and income of a company which carries on any specified undertaking.
$ 21, 8 of 2014 w.e.f.01.04.2014

53. (1) Where the taxable income of any person other than a company, for any year of assessment includes any dividend-

Rate of income tax on dividends out of exports profits and income.

(*a*) being a dividend out of–

(i) export profits and income of any company referred to in section 32F of the Inland Revenue Act, No. 28 of 1979, paid during the period in which such profits and income are taxable at the rate of ten *per centum*, or within one year thereafter; or

(ii) profits and income of any company which 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, being profits and income in respect of which such company has, in lieu of the exemption granted to it under such agreement, opted to be charged with income tax at the rate of ten *per centum*, paid during the period for which such profits are so chargeable with income tax or within one year thereafter; or

(*b*) being a dividend paid by any company out of such dividend received by that company as is referred to in sub-paragraph (i) or sub-paragraph (ii) of paragraph (*a*), if the first mentioned dividend is paid during any year of assessment in which the second mentioned dividend was received by that company, or within one year thereafter; or

(*c*) being dividend out of any such dividend as is referred to in sub-paragraph (i) or sub-paragraph (ii) of paragraph (*a*) received by any company through one or more intermediary companies, during the period for which the profits income out of which the dividends referred to in sub-paragraph (i) or subparagraph (ii) of paragraph (*a*) are paid are taxable at the rate of ten *per centum* or within two years thereafter, if the first-mentioned dividend is paid during the year of assessment in which the second mentioned dividend was received by that company or within one year thereafter,

such part of such taxable income as consists of such dividend, shall be chargeable with tax at the appropriate rate specified in the Fifth Schedule to this Act.

(2) Where the taxable income of any person other than a company for any year of assessment includes any dividend—

(*a*) being a dividend out of the qualified export profits and income of a company—

(i) referred to in section 51 or section 52 or the profits and income referred to in section 56 paid during the period in which such profits and income are taxable at the rate of fifteen *per centum* or within one year thereafter,

(ii) which 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, being an agreement entered into prior to December 31, 1994, on an application made in that behalf prior to November 11, 1993, being profits and income in respect of which such company has paid income tax at the rate of fifteen *per centum* paid during the period in which such profits and income are chargeable with income tax at the rate of fifteen *per centum* or within one year thereafter ;

(*b*) being a dividend paid by any company out of such dividend received by that company as is referred to in subparagraph (i) or subparagraph (ii) of paragraph (*a*), if the first-mentioned dividend is paid during any year of assessment in which the second mentioned dividend was received by that company or within one year thereafter; or

(*c*) being a dividend out of any such dividend as is referred to in sub-paragraph (i) or sub-paragraph (ii) of paragraph (*a*), received by any company during the period for which the profits and income out of which such dividends are paid are taxable at the rate of fifteen *per centum* or within two years thereafter, if the first mentioned dividend is paid during the year of assessment in which the second mentioned dividend was received by that company or within one year thereafter,

such part of such taxable income as consists of such dividend, shall be chargeable with tax at the appropriate rate specified in the Fifth Schedule to this Act.

$ 26, 9 of 2008 w.e.f.01.04.2008

(3) Subject to the provisions of section 63, where the taxable income of any company includes any dividend referred to in subsection (1) or subsection (2), the rate of income tax applicable to such part of such taxable income as consists of such dividend, shall for any year of assessment commencing from April 1, 2008, be ten *per centum*.

Rate of income tax on certain dividends. *$ 27, 9 of 2008 w.e.f.01.04.2008*

54. Where the taxable income of any person (other than a company) for any year of assessment includes a dividend, other than any dividend exempt from income tax as referred to in subsection (1) of section 10 :—

(*a*) not in the form of money or an order to pay money;

(*b*) in the form of money or an order to pay money, out of income exempt from tax or not chargeable with tax; or

(*c*) out of dividends received from another company where such dividends is not exempt from income tax under section 10, without a deduction of tax under subsection (1) of section 65,

irrespective of whether such company is entitled to deduct such tax or not,

the income tax on such dividend shall be charged at the appropriate rate specified in the Fifth Schedule to this Act.

55. Where the taxable income of any person for any year of assessment includes a dividend received from outside Sri Lanka, such part of such taxable income as consists of such dividend, shall be charged with tax at the appropriate rate as specified in the Fifth Schedule to this Act, subject to the provisions of any agreement for the avoidance of double taxation.

Rate of income tax on dividend received from outside Sri Lanka.

56. (1) Where any person or partnership who or which carries on any undertaking for the production or manufacture and supply to any specified undertaking referred to in subparagraph (i) of paragraph (*c*) of section 60–

Rate of income tax on deemed exports of any person or partnership.

(*a*) of any commodity, other than black tea in bulk, crepe rubber, sheet rubber, scrap rubber, latex or fresh coconut, for export by such specified undertaking without further production or manufacture by such specified undertaking; or

(*b*) of any goods for the production, manufacture or packaging by such specified undertaking of any commodity for export by such specified undertaking,

the profits and income from such supply being profits and income within the meaning of paragraph (*a*) of section 3 other than any profits and income from the sale of capital assets, shall be chargeable with income tax in accordance with the succeeding provision of this section.

(2) Where any person referred to in sub section (1) is a company (including a company being a partner of any such partnership) and the taxable income of such company for any year of assessment includes profits and income referred to in such subsection, then such company shall be chargeable with income tax at the rate of twelve *per centum* in respect of such profits and income.

$ 18, 18 of 2013 w.e.f.01.04.2013

(3) Where any person referred to in sub section (1) is an individual (including an individual being a partner of such partnership) and the taxable income of such individual for any year of assessment includes profits and income referred to in such subsection and the rate of income tax payable on a part of such income (hereinafter in this section referred to as the "relevant part of income") exceeds twelve *per centum*, then in regard to the relevant part of the income, the tax shall be computed as follows :—

$ 18, 18 of 2013 w.e.f.01.04.2013

(*a*) if the relevant part of the income exceeds the amount of such profits and income—

(i) the tax payable on such part of the relevant part of the income as is equal to the amount of such profits and income shall be at the rate of twelve *per centum*; and

(ii) the tax payable on the balance of the relevant part of the income shall be computed according to such of the rates above twelve *per centum* as are applicable thereto under this Act ; and

(*b*) if the relevant part of the income does not exceed the amount of such profits and income, the tax payable on the entirety of the relevant part of the income shall be at the rate of twelve *per centum*, notwithstanding anything to the contrary in this Act.

(4) The provisions of subsections (1), (2) and (3) shall apply if the supply referred to therein—

(*a*) is made during the period for which–

(i) the taxable income of the person who, or of any partner of a partnership which, carried on the specified undertaking referred to in subsection (1) is chargeable with income tax in accordance with the provisions of this Chapter; or

(ii) the export profits and income of the specified undertaking referred to in subsection (1) are exempt from income tax, under paragraph (*b*) of subsection (1) of section 20 of the Inland Revenue Act, No. 28 of 1979 or in terms of an agreement entered into by such specified undertaking with the Board of Investment of Sri Lanka under section 17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978; and

(*b*) is a supply in respect of which such documentary evidence as is required to satisfy the Commissioner General that the exports relating to such supply were in fact made, is adduced.

56A Such part of the profits and income of an export oriented company which 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, for any year of assessment commencing on or after April 1, 2013, from the sale of goods manufactured in Sri Lanka, up to the quantity approved by the Board of Investment as import replacement,

Rate of income tax on the profits and income from the sale of goods by an export oriented company.

(a) any company which has entered into an agreement with the Board of Investment of Sri Lanka under section17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978, enjoying tax holiday under section 16C, 16D or 17A of this Act or under the Strategic Development Projects Act, No.14 of 2008 and which is permitted to import project related goods or raw materials on duty free basis under the provisions of such agreement, during the project implementation period; or

$ 19, 18 of 2013 w.e.f.01.04.2013

(b) any person eligible to import specific goods on duty free basis under any Government Authority,

shall notwithstanding anything to the contrary in any other provisions of this Act, be deemed to be profits and income from exports and be chargeable with income tax at the appropriate rate specified in the Fifth Schedule to this Act.

56B Such part of the profits and income of any person for any year of assessment commencing on or after April 1, 2013 from the supply of any goods manufactured in Sri Lanka or the provision of services, to foreign ships for payments in foreign currency, shall notwithstanding anything to the contrary in any other provisions of this Act, be deemed to be profits and income from exports and be chargeable with income tax at the appropriate rate specified in the Fifth Schedule to this Act.

Rate of income tax on the profits and income from the supply of goods or services to foreign ships.

$ 19, 18 of 2013 w.e.f.01.04.2013

56C Such part of the profits and income of any person for any year of assessment commencing on or after April 1, 2013 from the sale of any product manufactured in Sri Lanka, other than such part of the profits and income exempt under section 13, for payment in foreign currency through foreign exchange earning account authorized by the Central Bank of Sri Lanka, shall notwithstanding anything to the contrary in any other provisions of this Act, be deemed to be profits and income from exports and be chargeable with income tax at the appropriate rate specified in the Fifth Schedule to this Act.

Rate of income tax on the profits and income from the sale of products manufactured in Sri Lanka for payment in foreign currency.
$ 19, 18 of 2013 w.e.f.01.04.2013
$ 22, 8 of 2014

56D For any year of assessment commencing on or after April 1, 2013 such part of the profits and income from the sale in the local market, of locally manufactured garments, bags made out of fabric, linen, curtains, packing items or ceramic products, of any export oriented company which exports not less than sixty per centum of its products shall be chargeable with income tax at the rate of twelve per centum:

Rate of income tax on the profits and income from the sale of locally manufactured goods in local market by export oriented companies.

Provided however, where the local value addition of such garments, bags, linen, curtains, packing items or ceramic products, as the case may be, is greater than sixty five per centum with Sri Lankan brand name, such part of the profits and income of such export oriented company from the sale in the local market, of such

$ 19, 18 of 2013 w.e.f.01.04.2013

[$ 17, 9 of 2015]

garments, bags, linen, curtains, or other goods shall be chargeable with income tax at the rate of ten per centum.

57. The profits and income earned in foreign currency in any year of assessment ending on or before March 31, 2008 by any company resident in Sri Lanka from services rendered in Sri Lanka to any person or partnership outside Sri Lanka, being services rendered in the course of carrying on or exercising any profession shall, if such profits and income are remitted to such company through a bank in Sri Lanka, be chargeable with income tax at the appropriate rate specified in the Fifth Schedule to this Act.

Rate of income tax on profits and income from services entered outside Sri Lanka by any resident company or partnership.

$13, 19 of 2009

58. Such part of the profits and income within the meaning of paragraph (a) of section 3, of any person as consists of profits and income from the supply of-

Rate of tax on profits and income from the supply of any services to any exporter
$23, 8 of 2014 w.e.f.01.04.2014

(repealed and substituted)

[$ 18(1), 9 of 2015]

(i) any services to any exporter of goods or services or to any foreign principal of such exporter directly, being services which could be treated as essentially related to the manufacture of such goods or provisions of such services exported by such exporter either directly or through any export trading house;

(ii) any services provided by an agent of a ship operator to such agent's foreign principal; or

(iii) any services provided by any freight forwarder insofar as such services are for export of goods, and the payment for such services are made by such exporter, foreign principal or the recipient of the services of the freight forwarder, to such person in Sri Lanka in foreign currency, shall, notwithstanding anything to the contrary in any other provision of this Act, be chargeable with income tax at the appropriate rate specified in the Fifth Schedule to this Act, if-

(a) such supply is covered by an international letter of credit or a letter of credit opened in a bank in Sri Lanka on a back to back basis against an international letter of credit for the remittance to Sri Lanka of the foreign exchange value of the exports related to such supply; or

(b) (i) the payment of the consideration for such supply is made in foreign currency by means of a draft or telegraphic transfer made in favor of such person by such exporter or foreign principal; and

(ii) such other documentary evidence as is required by the Commissioner- General to satisfy himself that the goods or services relating to such supply have in fact been exported, is adduced.

For the purpose of this section "freight forwarder" means a person or a partnership who or which is registered with the Central Bank of Sri Lanka under the Exchange Control Act, as a Freight forwarder and who- *[$ 18(2), 9 of 2015]*

(i) issues multi-modal documents of carriage covered by a Freight Forwarders' "All Risks and Legal Liability Insurance Policy"; and

(ii) furnishes, together with the return of relevant turnover for any relevant quarter, copies of the statements, furnished to the Controller of Exchange in respects of each month comprised in such relevant quarter of turnover prepared in the form specified in the Third Schedule to the Notification issued by the Controller of Exchange under section 29B of the Exchange Control Act, and net collections prepared in the form specified in the Fourth, Fifth and Sixth Schedules to such Notification.

59. (1) The profits and income of any agent of any nonresident person carrying on the business of ship owner or chartered, attributable to the agency fees payable to such agent in foreign currency in consideration of services rendered to such non-resident person in connection with any transshipment activity carried on by such non-resident person, shall, where such agent is an agent approved by the Director of Merchant Shipping, be chargeable with income tax at the appropriate rate specified in the Fifth Schedule to this Act.

Rate of tax on profits from transshipment agency fees.

(2) For the purposes of subsection (1), the profits and income attributable to agency fees in relation to any agent referred to in subsection (1) and to any year of assessment, shall be the sum which bears to the agency fee referred to in subsection (1) and which accrued to such agent in such year of assessment, the same proportion, as the proportion which the statutory income of such agent from the business of shipping agent bears to the total receipts from such business of shipping agent.

59A. Such part of the profits and income of any person for any year of assessment commencing on or after April 1, 2011 from an undertaking for the manufacture of any product for export, or for supply to an exporter for export, being a product having domestic value addition in excess of sixty five *per centum* and Sri Lankan brand name with patent rights reserved in Sri Lanka, shall notwithstanding anything to the contrary in any other provisions of this Act, be chargeable with income tax at the appropriate rate specified in the Fifth Schedule to this Act.

Rate of income tax on the profits from the export or supply to an exporter of certain product having domestic value addition over sixty five *per centum.*
$ 24,22 of 2011 w.e.f.01.04.2011

59B. (1) The profits and income of any person (not being the holding company, a subsidiary company, or an associate company of a group of companies) for any year of assessment commencing on

Rate of income tax applicable to the profits and income of any person

or after April 1, 2011, from any undertaking referred to in subsection (2) shall, notwithstanding anything to the contrary in any other provisions of this Act, but subject to provisions of section 59F be chargeable with income tax at the appropriate rate specified in the Fifth Schedule to this Act-

from any undertaking with annual turnover not exceeding certain amount.

$ 24,8 of 2014 w.e.f.01.04.2014

$ 24,22 of 2011 w.e.f.01.04.2011

$ 19, 8 of 2012 w.e.f.01.04.2012

$ 20, 18 of 2013 w.e.f.01.04.2013

(2) For the purpose of this section "undertaking" in relation to any year of assessment means any undertaking-

(a) engaged in the manufacture of any article or in the provision of any service; and

(b) the turnover of such undertaking (other than from the sale of any capital asset) for that year of assessment-

(i) being any year of assessment commencing on or after April 1, 2011 but prior to April 1, 2013, does not exceed three hundred million rupees;

(ii) being any year of assessment commencing on or after April 1, 2013, but prior to April 1, 2015 , does not exceed five hundred million rupees; *[$ 19(1), 9 of 2015]*

(iii) being any year of assessment commencing on or after April 1, 2015, does not exceed seven hundred and fifty million rupees. *[$ 19(2), 9 of 2015]*

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59C. (1) The profits and income within the meaning of paragraph (*a*) of section 3, (other than any profits and income from the sale of any capital asset), of any existing undertaking referred to in subsection (2), and carried on by any person or partnership, shall notwithstanding anything to the contrary in any other provisions of this Act, be taxable at the appropriate rate specified in the Fifth Schedule to this Act for a period of five years reckoned from the commencement of the year of assessment in which such undertaking satisfies the minimum investment as specified under subsection (2).

Tax rate applicable to strategic import replacement undertakings.

$ 19, 8 of 2012 w.e.f.01.04.2012

(2) For the purpose of subsection (1), "existing undertaking" means an undertaking which is engaged in the manufacture of products specified in Column I below with a minimum investment as specified in Column II below made in fixed assets as an expansion on or after April 1, 2011 –

Column I (product)	*Column II (Minimum investment in USD or its equivalent)*
Fabric	5 million
Pharmaceuticals	10 million
Milk powder	30 million
Cement	50 million

59D (1) The tax rate applicable on the profits and income within the meaning of paragraph (a) of section 3 (other than any profits and income from the sale of any capital asset), of any company which lists its shares on or after April 1, 2013 but prior to April 1, 2014, in the Colombo Stock Exchange licensed by the Securities and Exchange Commission of Sri Lanka and issues by way of Initial Public Offering not less than twenty per centum of its shares to the general public, shall be reduced by fifty per centum for the year of assessment in which such shares are listed and for another two years of assessment immediately succeeding that year of assessment subject where such company after listing continues to maintain not less than twenty per centum of holding of its shares by the general public:

Rate of income tax applicable to companies listing its shares in the Colombo Stock Exchange and issuing its shares to the general public.

$ 21, 18 of 2013 w.e.f.01.04.2013

Provided however, where any company lists its shares in the aforesaid manner, on or before April 1, 2017 and which is liable to pay income tax at the rate specified in item 3 of PART-B of Second Schedule to this Act, such rate shall be reduced by fifty *per centum* for the year of assessment in which such shares are listed and for another two years of assessment immediately succeeding that year of assessment subject such company after listing continues to maintain not less than twenty *per centum* of holding of its shares by the general public.

$ 25, 8 of 2014

(2) Where the company referred to in subsection (1) fails to maintain in any subsequent year of assessment after listing its shares, not less than twenty per centum of opinion of an Assessor or Assistant Commissioner, the tax reduced under subsection (1) shall notwithstanding to the contrary in any other provisions of this Act, be re-assessable, payable and recoverable.

For the purposes of this section "shares held by the general public" in relation to a listed company means shares of such company held by any person other than those directly or indirectly held by :-

(a) its parent, subsidiary or associate companies or any subsidiaries or associates of its parent company;

(b) its directors who are holding office as directors of such company, their spouses and children under 18 years of age;

(c) its Chief Executive Officer, his spouse and children under 18 years of age; and

(d) any single shareholder who holds ten per centum or more of the shares of such company.

59E Such part of the profits and income of any person or partnership from operating any project for producing any alternative energy including operating any mini hydro power project shall notwithstanding anything to the contrary in any other provisions of this Act, be taxable at the appropriate rate specified in the Fifth Schedule to this Act.

Rate of income tax on the profits and income from operating any alternative power generation project.

$ 21, 18 of 2013 w.e.f.01.04.2013

For the purposes of this section "mini hydro power project" means any hydro power project which generates less than ten Mega Watts electricity.

59F (1) Where the taxable income of any individual being a citizen of Sri Lanka, for any year of assessment commencing on or after April 1, 2014, includes any profits and income from providing professional services as a professional (hereinafter in this section referred to as the "relevant profits") and the rate of income tax payable under the First Schedule to this Act, on a part of such taxable income (hereinafter in this section referred to as the "relevant part of the taxable income") exceeds twelve *per centum*, then in regard to the relevant part of the taxable income, the tax payable shall be computed as given below:-

Rate of income tax on the profits and income from the provision of professional services
$ 26, 8 of 2014 w.e.f.01.04.2014 (Repealed &Subsituted)

[$ 20, 9 of 2015]

(a) where such relevant part of the taxable income exceeds the amount of the relevant profits then the tax payable on such relevant part of the taxable income shall be computed as follows:-

(i) if such relevant profits does not exceed twenty five million rupees, then the tax payable on such portion of the relevant part of the taxable income as is equal to the relevant profits, shall be at the rate of twelve *per centum*, and the tax payable on the balance of the relevant part of the taxable income, shall be computed according to such of the rates above twelve *per centum*, as are applicable thereto under the First Schedule to this Act; or

(ii) if such relevant profits exceed twenty five million rupees, then the tax payable,

- on such portion of the relevant part of the taxable income as is equal to twenty five million rupees shall be at twelve *per centum;*

- on such portion of the balance as does not exceed ten million rupees shall be at the rate of fourteen *per centum*; and

- on any balance relevant part of the taxable income shall be computed according to such of the rates above twelve *per centum*, as are applicable thereto under the

First Schedule to this Act subject to the following:-

(A) where the rate of income tax, under the First Schedule to this Act, payable on a portion of such balance relevant part of the taxable income exceeds sixteen *per centum*:

- the tax payable on such balance relevant part of the taxable income as is not exceeding the excess of relevant profits over thirty five million rupees shall be computed at sixteen *per centum*; and

- the tax payable on any balance of the relevant part of the taxable income, shall be computed according to such of the rates above sixteen *per centum*, as are applicable thereto under the First Schedule to this Act; or

(B) where the rate of income tax payable under the First Schedule to this Act, on any portion of such balance relevant part of the taxable income does not exceed sixteen *per centum*, then the tax payable on the entirety of such balance shall be computed at sixteen *per centum*; or

(b) where such relevant part of the taxable income does not exceed the amount of the relevant profits, then the tax payable on the relevant part of the taxable income shall be computed as follows:-

(i) if such relevant profits do not exceed twenty five million rupees then, the tax payable on the entirety of the relevant part of the taxable income, shall be at twelve *per centum*; or

(ii) if the relevant profits exceed twenty five million rupees, then the tax payable,

- on the portion by which twenty five million rupees exceeds the amount by which the relevant profits exceed relevant part of the taxable income shall be at twelve *per centum*;

- on the portion up to ten million rupees of the balance relevant part of the taxable income shall be at fourteen *per centum*; and

- on any balance relevant part of the taxable income shall be at sixteen *per centum*.

(2) For the purpose of this section, "professional" shall have the same meaning as given for that expression in section 40C.

59G . (1) The tax rate applicable on the profits and income earned by a bank for any year of assessment commencing on or after April 1, 2014, on any loan granted to any individual, who is a professional, for the purpose of constructing a house or purchasing a house or a unit of a residential apartment complex, by such individual alone or together with any other individual, shall be reduced by fifty *per centum*.

For the purpose of this section, "professional" shall have the same meaning as given for that expression in section 40C.

Rate of income tax applicable to the profits and income earned by any bank on loans granted to professionals for construction purposes
$ 26, 8 of 2014

59H Such part of the tax computed in accordance with this Act, as being payable by any ship operator, ship builder or any agent of a foreign ship shall, notwithstanding anything to the contrary in any other provision of this Act, be reduced by ten *per centum*, if such ship operator, ship builder or agent provides training on skill development in the shipping industry to trainees.

Income tax payable by ship operators, ship builders or any agent of a foreign ship.
$ 26, 8 of 2014 w.e.f.01.04.2014

59I The tax rate applicable on the profits and income of an existing company carrying on a business of manufacture of products (other than liquor or tobacco), on expansion of the manufacturing of such products of such company in any Province other than the Western Province (not by relocating the existing company or part thereof), by investing in the acquisition of fixed assets (other than land or building) not less than three hundred million rupees for any year of assessment commencing on or after April 1, 2015 but prior to April 1, 2017, and which is liable to pay income tax at the rate specified in item 3 of PART-B of the Second Schedule to this Act, shall be reduced by fifty *per centum* up to a maximum not exceeding five hundred million rupees, for the year of assessment in which such company commences the commercial operations of such expansion project and another four years of assessment immediately succeeding that year of assessment.

Rate of income tax applicable to profits and income of any manufacturing company which carries on an expansion of such business to any Province other than the Western Province.

[$ 21, 9 of 2015]

59J The tax rate applicable on the profits and income of any company which is registered with the Department of Inland Revenue for tax purposes on or before December 31, 2015 with a committed investment in excess of five hundred million rupees, to be made in any manufacturing business (other than liquor or tobacco based products) not by splitting-up or re - construction of an existing undertaking of any nature within the specified period as approved by the Commissioner General, shall be reduced by fifty *per centum* for the year of assessment in which such company commences the commercial operations and for consecutive period of six years of assessment immediately

Rate of income tax applicable to the profits and income of a new company engaged in any manufacturing business.

[$ 21, 9 of 2015]

succeeding that year of assessment, if the applicable rate of income tax is twenty eight *per centum.*

59K Such part of the tax computed in accordance with this Act, for any year of assessment commencing on or after April 1, 2015, as being payable by any manufacturer who has been in the business of manufacturing since the year nineteen seventy and sustained competitiveness with imports, shall notwithstanding anything to the contrary in any other provisions of this Act, be reduced by ten *per centum,* on the profits and income from the sales made on such manufactured products (other than liquor or tobacco based products) in the local market which is liable to tax at the maximum rate of twenty eight *per centum* on the profit on such sales.

Income tax payable by local manufacturer who is in the business since 1970.

[$ 21, 9 of 2015]

59L Such part of the tax computed in accordance with this Act, for any year of assessment commencing on or after April 1, 2015, as being payable by any local entrepreneurs engaged in the intercropping activities or vegetable and food processing activities, be reduced by fifty *per centum,* on the profits and income from such activities.

Income tax payable by local entrepreneurs engaged in intercropping activities or vegetable and food processing activities

For the purpose of this section:

"Local entrepreneur" means, a person who is a citizen of Sri Lanka and includes a company or partnership, the controlling interest of which is held by Sri Lankans;

[$ 21, 9 of 2015]

"Intercropping activities" means, cultivation of two or more crops simultaneously on the same field;

"vegetable and food processing activities" means, processing of vegetables or foods by any person with not less than thirty five percent of local value addition and the final product shall consist of not less than seventy *per centum* of locally grown vegetables or locally manufactured foods.

59M Such part of the tax computed in accordance with this Act, as being payable by any person being a manufacturer or provider of services who made investment in any undertaking for the manufacture or the provision of services located in any lagging region in a sum of not less than two hundred and fifty million rupees on or after February 1, 2015 but prior to March 31, 2017, shall notwithstanding anything to the contrary in any other provisions of this Act, be reduced by fifty *per centum,* on the profits and income of such person for the year of assessment in which such undertaking commences business operations and another four years of assessment immediately succeeding that year of assessment.

Income tax payable by a person on an undertaking located in any lagging region.

[$ 21, 9 of 2015]

For the purpose of this section "lagging region in relation to any year of assessment" means, any Divisional Secretary's Division as being in a state of economic backwardness as specified, by the Commissioner-General by Notice published in the Gazette in consultation with any appropriate authority within whose jurisdiction such Division comes and with the approval of the Minister.

60. For the purposes of this Chapter— Interpretation.

(*a*)"export turnover" in relation to any specified undertaking means the total amount receivable, whether, received or not, by that undertaking from the export of goods or commodities or from the provision of any service referred to sub-paragraph (ii) of paragraph (*c*), but does not include—

(i) any amount receivable, whether received or not, from the export of gems or jewellery or from the sale of any capital asset;

(ii) any amount receivable, whether received or not-from the export of black tea not in packet or package form and each packet or package weighing not more than one kilogram, crepe rubber, and, sheet rubber, scrap rubber, latex or fresh coconuts; or *$ 22, 18 of 2013 w.e.f.01.04.2013*

(iii) any profits and income not being profits and income within the meaning of paragraph (*a*) of section 3;

(b) "qualified export profits and income" in relation to any person, means the sum which bears to the profits and income within the meaning of paragraph (*a*) of section 3, after excluding there from any profits and income from the sale of gems and jewellery and any profits and income from the sale of capital assets, for that year of assessment from any specified undertaking carried on by such person, ascertained in accordance with the provisions of this Act, the same proportion as the export turnover of that undertaking for that year of assessment bears to the total turnover of that undertaking for that year of assessment;

(*c*) "specified undertaking" means any undertaking which is engaged in–

(i) the export of non-traditional goods manufactured, produced or purchased by such undertaking; or

(ii) the performance of any service of ship repair, ship breaking repair and refurbishment of marine cargo containers, provision of computer software, computer programmes, computer systems or recording computer

data, or such other services as may be specified by the Minister by Notice published in the Gazette, for payment in foreign currency; and

(*d*) "total turnover" in relation to any specified undertaking means the total amount receivable, whether received or not, by that undertaking from any trade or business carried on by that undertaking, but does not include any amount receivable, whether received or not, from the sale of capital assets, gems or jewellery or any profits and income not being profits and income within the meaning of paragraph (*a*) of section 3.

For the purposes of this section the expression "non- traditional goods" means goods other than black tea not in packet or package form and each packet or package weighing not more than one kilogram, crepe rubber, sheet rubber, scrap rubber, latex or fresh coconuts or any other produce referred to in section 16, but include organic tea in bulk.

$14, 19 of 2009 w.e.f.01.04.2009

$ 22, 18 of 2013 w.e.f.01.04.2013

CHAPTER X

COMPANIES

61. (1) The income tax to which any company resident in Sri Lanka in any year of assessment shall be liable for that year of assessment, shall consist of an amount–

Income tax to which any resident company is liable.

(*a*) calculated on the taxable income of such company for that year of assessment at the appropriate rate specified in the Second Schedule or Fifth Schedule to this Act, as the case may be;

$ 25,22 of 2011

(*b*) equal to:—

$ 18, 10 of 2007 w.e.f.30.03.2007

(i) ten *per centum* of the relevant part of the aggregate amount of the gross dividends distributed by such company in that year of assessment, out of the profits for any year of assessment; and

(ii) fifteen *per centum* of the excess of thirty three and one third *per centum* of the distributable profits of such company other than a company referred to in paragraph (*h*) of the first proviso to paragraph (*a*) of subsection (1) of section 25, for the year of assessment immediately preceding that year of assessment, (hereinafter in this paragraph referred to as the "preceding year") over the aggregate of the gross dividends distributed by such company out of such distributable profits, within a period of eighteen months immediately succeeding the commencement of such proceeding year,

$ 28, 9 of 2008 w.e.f.01.04.2008

[$ 22, 9 of 2015]

(A) where such year of assessment is any year of assessment commencing prior to April 1, 2011 and the company has within such period distributed dividends less in amount than twenty five *per centum*; or *$ 25,22 of 2011*

(B) where such year of assessment is any year of assessment commencing on or after April 1, 2011, and the company has within such period distributed dividends less in amount than ten *per centum*,

of the distributable profits for that preceding year:

Provided that, where the Commissioner-General is satisfied, that any company has been retrained from distributing or has set apart, the whole or any part of its distributable profits for any year of assessment in order to comply with any requirement imposed by any other written law, the whole or such part so restrained from being distributed or so set apart, shall be deemed to have been distributed, for the purposes of determining whether such company has distributed- *$ 18, 10 of 2007 w.e.f.30.03.2007*

$ 25,22 of 2011

(A) twenty five *per centum*, where such year of assessment is any year of assessment commencing prior to April 1, 2011; or

(B) ten *per centum*, where such year of assessment is any year of assessment commencing on or after April 1, 2011,

of its distributable profits.

In this paragraph—

"company" does not include any unit trust or mutual fund;

"distributable profits" in relation to any year of assessment and to any company means, the book profits of that company for that year of assessment, reduced by the aggregate of—

(*a*) the income tax payable by that company for that year of assessment calculated in accordance with paragraph (*a*);

(*b*) the cost incurred by that company in that year of assessment in the acquisition of any land or any capital asset; and

(*c*) any notional profit computed on the basis of a revaluation of any capital asset and included in such book profits,

increased by the aggregate of the allowance for depreciation deducted in respect of such capital asset in calculating such book profits and any notional loss computed on the basis of a revaluation of any capital asset and included in such book profits;

"relevant part" in relation to the aggregate amount of the gross dividends distributed by any company, means the balance of such aggregate after deducting there from any dividend distributed:—

(a) to any company or other body of person, who or which is exempt from income tax under paragraph (*a*) or paragraph (*c*) of section 7;

(b) to any registered society referred to in paragraph (h) of section 7, during the period referred to in that paragraph; *$ 28, 9 of 2008 w.e.f.01.04.2008*

(c) to any shareholder who is exempt from income tax under section 10 in respect of such dividend; or *$ 18, 10 of 2007 w.e.f.30.03.2007*

(d) out of any dividend received from another resident company;

(e) to any unit trust or to any mutual fund; *$ 28, 9 of 2008 w.e.f.01.04.2008*

(f) to Api Wenuwen Api Fund established by the Api Wenuwen Api Fund Act, No. 6 of 2008;

(*c*) in the case of any public corporation not less than seventy-five per centum of the capital of which is provided by the Government other than by way of loan, an amount equal to twenty-five *per centum* of the balance of its profits after deducting there from the income tax payable for that year of assessment under paragraph (*a*) :

Provided that where the aggregate amount of any gross dividend distributed in that year of assessment out of the profits on which the taxable income of such corporation is computed for any year of assessment—

(i) is not less than twenty-five per centum of such balance, the provisions of this paragraph shall not apply; and

(ii) is less than twenty-five *per centum* of such balance, the tax to which such public corporation is liable under this paragraph, for that year of assessment, shall be an amount equal to the excess of twenty-five *per centum* of such balance over such amount of such dividend;

$ 18, 10 of 2007 w.e.f.30.03.2007

For the purposes of this paragraph, the profits of the Insurance Corporation Limited of Sri Lanka shall be deemed not to include its profits from the business of life insurance ;

(2) For the purposes of this section "gross dividends" in relation to any dividend distributed by any company, means the amount of the dividend before any deduction is made under section 65.

$ 18, 10 of 2007 w.e.f.30.03.2007

62. (1) The income tax to which a company which is not resident in Sri Lanka in any year of assessment, shall be liable for that year of assessment shall consist of–

Income tax to which any nonresident company is liable.

(*a*) a sum equal to the amount calculated at the rate specified in the Second Schedule to this Act ;

(*b*) where there are remittances of such company in that year of assessment, a sum equal to ten per centum of the aggregate amount of such remittances by such company.

(2) In subsection (1), "remittances" with reference to a non-resident company mean—

(*a*) sums remitted or retained abroad out of the profits and income chargeable with income tax of the company and any sum received outside Sri Lanka by or on behalf of such company in relation to any trade, business, profession or vocation carried on in Sri Lanka by company, the profit of which are chargeable with income tax in Sri Lanka, such sums not including any dividend paid by a resident company to such non-resident company;

$ 29, 9 of 2008 w.e.f.01.04.2006

(*b*) such part of the proceeds of the sale abroad of products exported by that company as is retained abroad; and

(*c*) in respect of any products exported by that company and not sold in a wholesale market or not sold at all, such part of the profits deemed under section 84 to be derived from Sri Lanka as is retained abroad.

63. Where a dividend is paid by any resident company to any resident or non-resident company, and either—

Certain dividends not to form part of the total statutory income of the receiving company.
$ 19, 10 of 2007

(*a*) a deduction has been made under section 65 in respect of that dividend by the first mentioned resident company ;

(*b*) that dividend is exempt from income tax under section 10 ; *$ 19, 10 of 2007 w.e.f.30.03.2007*

(*c*) such dividend consists of any part of the amount of a dividend received by the first-mentioned resident company from another resident company; or *$ 19, 10 of 2007 w.e.f.30.03.2007*

(*d*) such dividend is a dividend declared by a quoted public company, *$ 19, 10 of 2007 w.e.f.30.03.2007*

profits and income from such dividend shall, notwithstanding anything to the contrary in any other provision of this Act, be deemed not to form part of the total statutory income of the second mentioned company. *$ 27, 8 of 2014 w.e.f.01.04.2014*

For the purpose of this section the profits and income from such dividends which form part of the profits under section 3(*a*) of this Act, means profits and income after deducting expenses in ascertaining the profits from such business of receiving dividends. *[$ 23, 9 of 2015]*

64. The profits of a company from transactions with its shareholders which would be assessable if such transactions were with persons other than its shareholders, shall be profits within the meaning of this Act. Profits of a company from transactions with its shareholders.

65. (1) Every resident company, other than a unit trust or mutual fund approved by the Securities and Exchange Commission of Sri Lanka, shall deduct from the amount of gross dividend payable to any shareholder, other than— Resident company to deduct tax from any dividend. *$ 20, 10 of 2007 w.e.f.30.03.2007*

(*a*) any company or body of persons which is exempt from income tax under paragraph (*a*) or paragraph (*c*) of section 7;

(b) any unit trust or mutual fund approved by the Securities and Exchange Commission of Sri Lanka;

(c) the Api Wenuwen Api Fund established by the Api Wenuwen Api Fund Act, No. 6 of 2008; *$ 30, 9 of 2008 w.e.f.01.04.2008*

(d) any registered society referred to in paragraph (*h*) of section 7, during the period referred to in that paragraph :

(e) any person who is exempt from income tax under section 10 in respect of any dividend received by such person as referred to in that section.

in the form of money or an order to pay money, income tax equal to ten *per centum* of such gross dividend: *$ 20, 10 of 2007 w.e.f.30.03.2007*

Provided that, in determining for the purposes of this subsection, the amount of gross dividend in relation to any dividend payable by any resident company, no account shall be taken of such part of that dividend, if any, as is paid by any other resident company and received by the first mentioned resident company, either directly or through one or more intermediary companies.

(2) Every person who issues a warrant, cheque or other order drawn or made in payment of any dividend which becomes payable by a resident company during any year of assessment, shall annex thereto a statement in such form as may be specified by the Commissioner-General setting out–

(*a*) the gross amount which after deduction of income tax thereon, corresponds to the net amount actually paid;

(*b*) the sum deducted as income tax;

(*c*) the net amount actually paid;

(*d*) the composition of the gross dividend indicating separately the amount paid out of—

(i) dividends received;

$ 20, 10 of 2007 w.e.f.30.03.2007

(ii) other dividends received;

(iii) income exempt from or not chargeable with income tax;

(iv) other profits and income.

(3) Where for any year of assessment the assessable income of a person other than a company includes a dividend from a resident company in the form of shares or debentures, he shall be entitled to deduct from the tax payable by him an amount equal to an amount which the company would have been entitled under subsection (1) to deduct as tax on such dividend, had such dividend been paid in the form of cash.

(4) The excess of the aggregate of the deductions made by any resident company under subsection (1), over the tax payable by such company under sub-paragraph (i) of paragraph (b) of subsection (1) of section 61, shall be remitted to the commissioner-General within a period of thirty days from the date on which the gross dividend referred to in that subsection, is paid.

$ 30, 9 of 2008 w.e.f.01.04.2008

66. (1) Where in the case of a company the Assessor or Assistant Commissioner is satisfied that the company has not distributed to its shareholders a reasonable part of its profits for any year of assessment, the Assessor or Assistant Commissioner may,

Certain undistributed profits to be treated as distributed.

subject to the provisions of subsections (2), (3) and (4) of this section, treat the whole or a part of the profits of the company, after deducting therefrom any expenditure incurred for the development of the business of the company, (other than the price paid for the purchase of an existing business or an agricultural undertaking), as distributed in the form of dividends to the shareholders of the company, on a date specified by the Assessor or Assistant Commissioner.

(2) In determining under subsection (1) whether a company has not distributed to its shareholders a reasonable part of its profits, the Assessor or Assistant Commissioner shall have regard to—

(*a*) the total amount of its profits;

(*b*) the additional assessments, if any, made on the company;

(*c*) the current requirements of the company's business; and

(*d*) such other requirements as may be necessary or advisable for the maintenance and development of the company's business.

(3) For the purposes of subsection (1), any of the following sums shall be regarded as profits available for distribution among the shareholders of the company, and not as having been applied or being applicable to the requirements of the company's business or to such other requirements as may be necessary or advisable for the maintenance and development of that business, namely–

(*a*) any sum expended or applied, or intended to be expended or applied, out of the profits of the company, in the redemption or repayment of any share or loan capital or debt (including any premium on such share or loan capital or debt) issued or incurred otherwise than for adequate consideration;

(*b*) any sum lent to a director or shareholder of the company; and

(*c*) any sum expended or applied, or intended to be expended or applied, in pursuance or in consequence of any fictitious or artificial transactions.

(4) For the purpose of subsection (3), any share or loan capital or debt shall be deemed to be issued or incurred otherwise than for adequate consideration, if it is issued or incurred—

(*a*) for a consideration the value of which to the company is substantially less than the amount of the capital or debt (including any premium thereon); or

(*b*) in or towards, or for the purpose of raising money applied or to be applied in or towards, the redemption or repayment of any share or loan capital or debt which itself was issued or incurred for such consideration as is mentioned in paragraph (*a*) or which represents directly or indirectly, any share or loan capital or debt which itself was issued or incurred for such consideration,

and references in this subsection and in subsection (3) to money applied or to be applied for any purposes, shall be deemed to include references to money applied or to be applied in or towards the replacement of that money.

(5) Where the Assessor or Assistant Commissioner under subsection (1) treats the whole or part of the profits of the company for any year of assessment as distributed in the form of dividends to shareholders of the company, such company shall be liable to pay income tax for that year of assessment on the profits treated as so distributed, at the highest rate at which income tax is chargeable for that year upon the taxable income of an individual, and such tax shall–

(*a*) be in addition to and not in lieu of any income tax payable by that company under any other provision of this Act ; and

(*b*) be assessed and charged upon such company by an Assessor or Assistant Commissioner and the provisions relating to payment and recovery shall apply accordingly:

$ 21, 10 of 2007 w.e.f.30.03.2007

Provided that the tax so assessed and charged shall be reduced by the amount of the tax, if any, referred to in sub-paragraph (ii) of paragraph (*b*) of subsection (1) of section 61.

$ 21, 10 of 2007 w.e.f.30.03.2007

(6) Where a company referred to in subsection (1) is being wound up in pursuance of an order made by a court or a resolution passed in that behalf by the shareholders of the company, then the balance of the income after payment of income tax in the year of assessment in which such winding up commences and for each subsequent year of assessment until such winding-up is completed, shall be regarded as income distributed as dividends to such shareholders.

67. Where the profits and income of a company for any year of assessment or any part of such profits and income are appropriated by any director, manager, shareholder or executive officer of that company, such profits and income or such part of such profits and income shall form part of the profits and income for that year of assessment of the person by whom such profits or income or part thereof are appropriated and shall be assessable accordingly and,

Provisions applicable where the profits and income of a company are appropriated by the director & c. of that company.

the Commissioner-General may, taking into account all the circumstances of the case, deduct such profits and income or part thereof under subsection (1) of section 25 for the purpose of ascertaining the profits and income of that company for that year of assessment.

68. The provisions of this Chapter shall not apply to, any charitable institution or any body of persons which is a body corporate and assessable under section 101.

Provisions of this Chapter not to apply to charitable institutions etc.

CHAPTER XI

SPECIAL CASES

A – CHILDREN

69. (1) Where during any year of assessment an individual who is a child reaches the age of eighteen or marries, then for that year of assessment–

Assessment of child's income.

(*a*) the total statutory income of that individual shall not be aggregated with and deemed to form part of the total statutory income of his parent;

(*b*) any sum which could be deducted from the total statutory income of that individual under section 32 shall not be deducted from the total statutory income of his parent;

(*c*) any qualifying payment within the meaning of section 34 made by that individual shall not be deemed to be a qualifying payment made by his parent,

and such child shall be liable to pay income tax for that year of assessment calculated as though he was an individual who is not a child throughout that year of assessment.

(2) Where during any year of assessment the marriage of the parents of a child ceases to subsist or is deemed not to subsist–

(*a*) the total statutory income of that child for that year of assessment shall be aggregated with and deemed to be part of the total statutory income of his father;

(*b*) any sum which could be deducted for that year of assessment from the total statutory income of that child under section 32, shall be deducted from the total statutory income of his father;

(*c*) any qualifying payment within the meaning of section 34 made by that child in that year of assessment shall be deemed to be a qualifying payment made by his father.

(3) For the purposes of subsection (2), a marriage shall not be deemed to subsist if the wife is living apart from her husband under the decree of a competent court or a duly executed deed of separation, or if the husband and wife are in fact separated in such circumstances that the separation is likely to be permanent.

B-RECEIVER, TRUSTEE, EXECUTOR, & C,.

70. (1) An Assessor or Assistant Commissioner may give notice in writing to a receiver or trustee requiring him to furnish within the period specified in the notice, in the case of a– Returns to be furnished by receiver and trustee and their liability to tax.

(*a*) receiver, a return for the purposes of income tax, of the income from the properties under his control;

(*b*) trustee, a return for the purposes of income tax, of the income from the properties subject to the trust, and a receiver or trustee shall be chargeable with income tax, in the case of a—

(i) receiver, on the income of the properties subject to his control; and

(ii) trustee, subject to the provisions of subsection (2), on the income of the properties of the trust.

(2) Where there are any beneficiaries to a trust the income of which is liable to income tax under subsection (1), then the share of the income to which such beneficiaries are entitled shall be deducted from the amount of the income which is liable to tax under subsection (1), and shall be considered for the purposes of this Act, as the income of such beneficiaries and accordingly each such beneficiary shall be chargeable with income tax in respect of his share of such income.

(3) Where, for any year of assessment, the entirety or any part of the income of a trust is considered under subsection (2), to be the income of a beneficiary the trustee shall, on or before the thirtieth day respectively of July, October and January of that year of assessment and on or before the thirtieth day of April of the immediately succeeding year of assessment, give to that beneficiary in such form as may be specified by the Commissioner-General, a notice stating the amount of such income.

(4) The income tax with which a receiver or a trustee is chargeable for any year of assessment shall be paid by him in accordance with the provisions of section 113, notwithstanding that no assessment has been made on him. *$ 22, 10 of 2007 w.e.f.30.03.2007*

(5) For the purpose of this section, the term "trust" shall not include any unit trust, and the term "trustee" shall not include any trustee of any unit trust.

71. The trustee of an incapacitated person shall be chargeable with income tax in like manner and to the like amount as such person would be chargeable under this Act:

Chargeability to tax of trustee of an incapacitated person.

Provided that nothing in the preceding provisions of this section shall be deemed to prevent such person from being assessed directly in his own name.

72. An executor of a deceased person shall be liable to do all such acts, matters and things as such deceased person would be liable to do under this Act if he were alive, and shall be chargeable with income tax, with which such deceased person would be chargeable if he were alive in respect of all periods prior to the date of the death of such person:

Liability of executor to tax payable by deceased person.

Provided that—

(*a*) no proceedings shall be instituted against the executor under the provisions of Chapter XXIX of this Act, in respect of any act or default of the deceased person;

(*b*) no assessment or additional assessment in respect of a period prior to the date of such person's death shall be made after the expiry of the third year of assessment subsequent to the year of assessment in which probate or letters of administration, as the case may be , was issued to the executor in respect of the estate of such person, except where there has been non-assessment or under-assessment by reason of fraud or willful evasion by such person, or by reason of an incorrect statement by the executor of his estate, in which case an assessment or additional assessment may be made at any time after the expiry of the aforesaid third year of assessment; and

(*c*) the liability of an executor under this section shall be limited to the aggregate of—

(i) the deceased person's estate in his possession or control at the date when notice is given to him that liability to tax will arise under this section ; and

(ii) any part of the estate which may have passed to a heir or other person having any interest in such estate.

73. (1) An Assessor or Assistant Commissioner may give notice in writing to the executor of a deceased person requiring him to furnish within the period specified in such notice a return for the purposes of income tax, of the income from the estate administered by him and the name and address of each heir and other person having any interest in the estate of the deceased person (such heir or other person hereinafter referred to as a "beneficiary") and his interest in such estate.

Return to be furnished by executor and chargeability of an executor and beneficiary.

(2) A beneficiary shall, subject to the provisions of subsection (4), be chargeable with income tax in respect of his share of the income to which he is entitled from the estate of the deceased person.

(3) Where, for any year of assessment, a beneficiary is chargeable with income tax under subsection (2) in respect of his share of the income to which he is entitled from the estate of a deceased person, the executor of that estate shall, on or before the thirtieth day of July, October and January of that year of assessment and of April of the succeeding year of assessment, give to the beneficiary in such form as may be specified by the Commissioner-General, a notice stating the amount of such income and such notice shall contain the particulars required to be set out in such form.

(4) Where the income to which a beneficiary is entitled from the estate of a deceased person cannot be ascertained, the executor shall be chargeable with income tax in respect of such income.

(5) The income tax with which an executor is chargeable under this Act for any year of assessment shall be paid by him in accordance with the provisions of section 113, notwithstanding that no assessment has been made on him. *$ 23, 10 of 2007 w.e.f.30.03.2007*

74. Where two or more persons act in the capacity of trustees of a trust not being any unit trust, or executors of a deceased person's estate, they may be charged jointly or severally with the income tax with which they are chargeable in that capacity under this Act, and shall be jointly and severally liable for payment of such taxes. Joint trustees and executors.

C-UNIT TRUSTS

75. (1) For the purposes of this Act, every unit trust and every mutual fund shall be deemed to be a company resident in Sri Lanka and accordingly the provisions of this Act, relating to companies resident in Sri Lanka shall, mutatis mutandis, apply to every unit trust and every mutual fund. Every unit trust deemed to be a company.

(2) Without prejudice to the generality of the provisions of subsection (1)–

(*a*) a "unit" in any unit trust or a mutual fund shall be deemed to be a "share" in that company;

(*b*) a unit holder in any unit trust or mutual fund shall be deemed to be a shareholder in that company;

(*c*) the profits and income derived by or which arose or accrued to the benefit of, the trustee of any unit trust or the custodian of any mutual fund from any property subject to that unit trust or mutual fund or from any trade

or business carried on by such trustee or such custodian for, or on behalf of, that unit trust or mutual fund shall be deemed to be the profits and income of that company;

(*d*) any distribution, in any manner whatsoever, of the profits or income of any unit trust or mutual fund to its unit holders shall be deemed to be a dividend distributed to the shareholders of that company; and

(*e*) the paid up value of any unit in any unit trust or mutual fund shall be deemed to be the paid up value of any share in that company.

(3) Any sum appropriated or paid by way of remuneration to the manager or the trustee of any unit trust or to the manager or custodian of any mutual fund out of the funds of that unit trust or mutual fund shall, for the purposes of section 25 be deemed to be outgoings and expenses incurred by that company in the production of its income.

(4) Such part of the taxable income:—

$ 24, 10 of 2007 w.e.f.30.03.2007

(*a*) for the year of assessment commencing on April 1, 2006, of any unit trust or mutual fund, as consists of the profits and income derived from the business of dealing in shares or debt instruments; and

(*b*) for any year of assessment commencing on or after April 1, 2007, of any unit trust or mutual fund as consists of the profits and income derived from dealing in debt instruments,

in accordance with the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987 or any regulations or rules made there under, shall be chargeable with income tax at the rate specified in item 2 (*a*) of part A of the Second Schedule to this Act.

D-PARTNERSHIPS

76. (1) Where a trade, business, profession or vocation is carried on or exercised by two or more persons in partnership, the provisions of the following subsections shall apply.

Assessment of Partnership income.

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$ 28,8 of 2014 w.e.f.1.4.2014

(2) The divisible profit or loss of a partnership for any year of assessment shall be the profit or loss of the partnership from any trade, business, profession or vocation carried on or exercised by such partnership during that year of assessment, ascertained in accordance with the provisions of this Act, relating to the ascertainment of profits and income of a person, after deducting from the total of such profit or adding to the total of such loss, as the case may be, the amount of any interest or annuity, (except

where it is payable by a person out of Sri Lanka) payable by the partnership:

Provided that, in ascertaining the profit or loss of the partnership, nothing shall be deducted for salaries or other remuneration of partners or for interest on partner's capital, but such sums shall be taken into account in apportioning among the partners the divisible profit or loss.

(3) A Commissioner may give notice in writing to the precedent partner of a partnership requiring him to furnish within the time specified in such notice a return, showing–

(*a*) the profits or losses of the partnership from any trade, business, profession or vocation carried on or exercised by such partnership during any year of assessment ascertained in accordance with the provisions of this Act relating to the ascertainment of profits and income of a person, and showing also any interest, annuity, ground rent or royalty payable by such partnership in respect of such trade, business, profession or vocation for that year of assessment;

(*b*) any other income of the partnership for that year of assessment; and

(*c*) the names and addresses of all the partners and the apportionment among them of the whole of the divisible profit or loss and other income in accordance with their shares in the partnership during the period in which such profit or loss or income arose, taking into account in such apportionment the salaries and other remuneration of partners and any interest on partners' capital. Where no active partner is resident in Sri Lanka, the return shall be furnished by the agent in Sri Lanka of the partnership.

(4) The precedent partner of a partnership or where no active partner is resident in Sri Lanka the agent in Sri Lanka of such partnership shall, in respect of any year of assessment, issue to each partner of that partnership on or before the thirty first day of July, October and January of that year of assessment and the thirtieth day of April immediately succeeding the end of that year of assessment, a notice in such form as may be specified by the Commissioner-General specifying each partner's share of the divisible profit or loss and other income of the partnership for that year of assessment, taking into account any salary and other remuneration of that partner and any interest on the partner's capital:

Provided that the liability of, or duty imposed on, any partner of such partnership by or under any of the provisions of

this Act, shall not be affected by reason of the fact that no notice under this subsection was issued to him by the precedent partner or the agent of that partnership.

(5) The statutory income of any partner from a partnership shall be computed in accordance with the provisions of section 28 by treating his share of the divisible profit of the partnership as though it were the profits of a trade, business, profession or vocation carried on or exercised by him and his share of other income as though it accrued to him solely and the share of any partner of a divisible loss shall be treated as a loss incurred by him within the meaning of section 32:

Provided that where no return has been made as required by subsection (3) or a return made under that subsection has not been accepted, the Assessor or Assistant Commissioner may estimate the statutory income of any partner, from the partnership or the share of any partner of any divisible loss of the partnership to the best of his judgment:

Provided further that where the Assessor or Assistant Commissioner r is of the opinion that the whole or a part of the divisible profit of the partnership has been appropriated by a partner, the Assessor or Assistant Commissioner may include in that partner's share of the divisible profits of the partnership, the amount appropriated by that partner and the statutory income of such partner shall be computed accordingly.

(6) The income of any non-resident partner or partners from the partnership shall be assessable in the name of the partnership or of any resident partner or of any agent in Sri Lanka of the non-resident partner or of the partnership, and the income tax charged thereon shall be recoverable in the manner provided in Chapter XXVI, out of the assets of the partnership, or from any partner, or from any such agent.

Assessment to be made in the name of the partnership in certain circumstances.

77. (1) Where no return has been made in accordance with subsection (3) of section 76 or the return has not been accepted by the Assessor or Assistant Commissioner either as regards the amount of the profits or income or the apportionment thereof among the partners, it shall be lawful for an assessment to be made in the name of the partnership on the estimated amount of the profits and income of the partnership ascertained in accordance with the provisions of this Act relating to the ascertainment of the assessable income of a person, and income tax thereon shall be charged at such rate or rates as may be specified in that behalf in the Third Schedule to this Act, and shall be recoverable out of the assets of the partnership, or from any partner, or from any agent of the partnership. Any person aggrieved by such assessment may appeal there from in the manner provided in Chapter XXIII. The commissioner-General or the Board of Review, as the case may

be, may upon such appeal, determine the divisible profits and other income of the partnership and apportion the same among the partners and compute the statutory income of each of the partners from the partnership in accordance with subsection (5) section 76 and the income tax payable in respect thereof. Such income tax may be recovered as tax on the assessment appealed against without any new assessment.

(2) Where after an assessment has been made in the name of a partnership under subsection (1), a change occurs in such partnership by reason of the retirement or death of, or the dissolution of the partnership in relation to, one or more of the partners, or the admission of a new partner, so however, that one or more of the persons who were joint owners of the assets of such partnership prior to such assessment continues or continued to be owner or joint owners of such assets, the person or partnership becoming owner of such assets, in consequence of such change shall be charged with the income tax or any part of it which remains unpaid on that assessment and the provisions of Chapter XXVI shall apply to such persons or partnership accordingly.

78. (1) Notwithstanding the provisions contained in section 77, every partnership shall be charged with income tax:— Tax chargeable on partnerships.

$ 25, 10 of 2007 w.e.f.01.04.2006

(a) for the year of assessment commencing on April 1, 2006, on the aggregate of the divisible profits referred to in section 76 and other income;

(b) for any year of assessment commencing on or after April 1, 2007, but prior to April 1, 2013, on the excess, if any, of the aggregate of the divisible profits referred to in section 76 and other income over six hundred thousand rupees"; and *$ 23, 18 of 2013 w.e.f.01.04.2013*

(c) for any year of assessment commencing on or after April 1, 2013, on the excess, if any, of the aggregate of the divisible profits referred to in section 76 and other income over one million rupees,

at the appropriate rate given in the Fifth Schedule to this Act, for each year of assessment and such tax shall be paid by the partnership in quarterly installments as provided for in Chapter XIII, subject to the provisions of this section:

Provided that for any year of assessment income tax referred to in sub section (1) of this section shall not apply, if the Economic Service Charge paid under the Economic Service Charge Act, No. 13 of 2006, for that year of assessment is more than the income tax *$ 25, 10 of 2007 w.e.f.01.04.2006*

payable under the provisions of this subsection :

Provided further if the income tax payable under subsection (1) is more than the Economic Service Charge paid under the Economic Service Charge Act, No. 13 of 2006, the amount of income tax payable shall be reduced by the Economic Service Charge paid for the same year of assessment. *$ 25, 10 of 2007 w.e.f.01.04.2006*

(2) Where there is a divisible loss for any year of assessment, the tax shall be charged on the total amount of other income, without any set off of such divisible loss from such other income.

(3) Notwithstanding anything to the contrary in any other provision of this Act, the share of the tax paid (other than any tax in default recovered) under subsection (1), less any amount set off against the Economic Service Charge levied under the Economic Service Charge Act, No.13 of 2006 paid by the partnership for that year that is attributable to each partner using the ratio of shares of profits inclusive of any salary from such partnership for that year of assessment, may be set off against the income tax liability of such partner of such partnership for the same year of assessment on such share of profit and other income from such partnership, without any right to a refund or carry forward of any excess of such share of tax attributable to such partner. *$15, 19 of 2009 w.e.f.01.04.2006* *$ 26,22 of 2011 w.e.f.01.04.2011*

(4) Any quarterly instalment of tax payable as provided for in Chapter XIII of this Act subject to the provisions of this section and not paid on or before the due date, shall be a tax in default for the purposes of this Act and recovery action under Chapter XXVI of this Act may be instituted by the Commissioner-General under that Chapter, against any or all of the partners of such partnership for the recovery of such tax in default.

For the purposes of this section "any quarterly instalment of tax payable" shall include an estimated amount of tax on the basis of the preceding year's divisible profit and other income, where the divisible profit and other income for that year cannot be ascertained due to the non-availability of details of such profits and income of the partnership.

(5) For the purpose of sections 76, 77 and this section, the word "person" referred to in those sections, shall be read and construed as including a partnership.

E – RESIDENCE

79. (1) Where a company or a body of persons has its registered or principal office in Sri Lanka, or where the control and management of its business are exercised in Sri Lanka, such company or body of persons shall be deemed to be resident in Sri Lanka for the purposes of this Act. What constitutes residence.

(2) An individual who is physically present in Sri Lanka for one hundred and eighty three days or more during any year of assessment, shall be deemed to be resident in Sri Lanka throughout that year of assessment.

(3) For any year of assessment commencing prior to April 1, 2013, an individual who has been deemed resident for two or more consecutive years of assessment shall be deemed to be resident until such time as he is continuously absent from Sri Lanka for an unbroken period of three hundred and sixty five days. When such person is so absent, he shall notwithstanding the provisions of subsection (2), be deemed to be non-resident from the commencement of the year of assessment in which such absence commences.

$ 24, 18 of 2013 w.e.f.01.04.2013

$ 29, 8 of 2014

(4) Where, but for his presence in Sri Lanka for any period or periods not exceeding in the aggregate of thirty days, a person would have been deemed under subsection (3) to have been non-resident, such period or periods not exceeding in the aggregate of thirty days for any year of assessment prior to April 1, 2013, shall be treated as if it or they had been spent by him outside Sri Lanka.

$ 24, 18 of 2013 w.e.f.01.04.2013

(5) An individual who is in the employment of the Government of Sri Lanka and who is resident in any other country during any period for the purposes of such employment and the spouse of such individual shall, for the purposes of this Act, be deemed to be resident in Sri Lanka during that period, if income tax or any tax of a similar character is not payable in that country in respect of the official emoluments payable to him for such period:

Provided that any such individual who is a citizen or subject of any country other than Sri Lanka shall not, by reason of his being so deemed to be resident in Sri Lanka, be liable to income tax as a resident in respect of any income, other than his official emoluments or other income arising in or derived from Sri Lanka.

(6) An individual who is employed in a Sri Lanka ship, within the meaning of the Merchant Shipping Act, shall for the purposes of this Act, be deemed to be resident in Sri Lanka during the period he is so employed:

Provided that where any such individual is a citizen or subject of any country other than Sri Lanka, he shall not, by reason of his being so deemed to be resident in Sri Lanka, be liable to income tax as a resident in respect of any income other than his income from employment in such ship.

(7) An individual who is not a citizen of Sri Lanka and who is employed in Sri Lanka shall, notwithstanding the provisions of the preceding subsections, be deemed to be non-resident for a

period of three years calculated from the date on which he commences employment in Sri Lanka:

Provided that where such individual is an individual employed in a flagship company within the meaning of subsection (2) of section 40 such individual shall be deemed to be non-resident for a period of five years calculated from the date on which he commences employment in Sri Lanka:

$ 31, 9 of 2008 w.e.f.01.04.2008

Provided further that no individual shall be deemed to be a non-resident under the provisions of this subsection, on or after April 1, 2008.

$ 31, 9 of 2008 w.e.f.01.04.2008

F – LIABILITY OF NON-RESIDENT PERSONS

80. Where a person in Sri Lanka, acting on behalf of a non-resident person, effects or is instrumental in effecting any insurance or sells or disposes of or is instrumental in selling or disposing of any property, whether such property is in Sri Lanka or is to be brought into Sri Lanka and whether the insurance, sale or disposal is effected by such person in Sri Lanka or by or on behalf of the non-resident person outside Sri Lanka and whether the moneys arising there from are paid to or received by the non-resident person directly or otherwise, the profits arising from any such insurance, sale or disposal shall be deemed to be derived by the non-resident person from business transacted by him in Sri Lanka, and the person in Sri Lanka who acts on his behalf shall be deemed to be his agent for all the purposes of this Act:

Chargeability of certain profits of non resident persons.

Provided that where the property sold or disposed of is produced or manufactured by such non-resident person outside Sri Lanka, the profits from the sale or disposal shall, if the sale or disposal was by—

(*a*) whole sale, be deemed to be not more than the profits which might reasonably be expected to be made by a merchant selling the property by wholesale; and

(*b*) retail, be deemed to be not more than the profits which might reasonably be expected to be made by a merchant selling the property by retail.

81. A non-resident person shall be assessable either directly or in the name of his agent in respect of all his profits and income arising in or derived from Sri Lanka, whether such agent has the receipt of the profits or income or not, and the income tax so assessed whether directly or in the name of the agent shall be recoverable in the manner provided for in this Act, out of the assets of the non-resident person or from the agent. Where there are more agents

Persons assessable on behalf of a on resident person.

than one, for they may be assessed jointly or severally in respect of the profits and income of the non-resident person and shall be jointly and severally liable for income tax thereon.

82. (1) For the purposes of this section— Liability of certain nonresident persons.

(*a*) a person is closely connected with another person, where the Commissioner-General is satisfied that such persons are substantially identical or that the ultimate controlling interest of each is owned or deemed under this section to be owned by the same person or persons;

(*b*) the controlling interest of a company shall be deemed to be owned by the beneficial owners of its shares, whether held directly or through nominees, and shares in one company held by or on behalf of another company shall be deemed to be held by the shareholders of the last-mentioned company.

(2) Where a non-resident person carries on business with a resident person with whom he is closely connected and the course of such business is so arranged that it produces to the resident person either no profits or less than the ordinary profits which might be expected to arise from such business, the business done by the non-resident person in pursuance of his connection with the resident person shall be deemed to be carried on in Sri Lanka, and such non-resident person shall be assessable and chargeable with income tax in respect of his profits from such business in the name of the resident person, as if the resident person were his agent, and all the provisions of this Act shall apply accordingly.

(3) Where income tax is chargeable in respect of the profits arising from the sale of goods or produce manufactured or produced outside Sri Lanka by a non resident person or by a person or persons with whom he is closely connected, the profits of such non-resident person for the purposes of this Act from the sale of such goods or produce, shall be deemed to be not less than the profits which might reasonably be expected to have been made by a merchant or where the goods or produce are retained by or on behalf of the nonresident person, by a retailer of the goods or produce sold, who had bought the same direct from a manufacturer or producer with whom he was not connected.

(4) Where import duty levied on an ad valorem basis under the Customs Ordinance has been paid in Sri Lanka on such goods or produce, the sum to be deducted as the cost of such goods or produce on arrival in Sri Lanka shall not, for the purpose of computing the profits arising in Sri Lanka, be greater than the value on which such import duty has been so paid.

83. Where the Commissioner-General is of the opinion that the correct amount of the profits of a non-resident person arising in or derived Profits of certain businesses to be

from Sri Lanka from any trade or business cannot be readily ascertained, for the reason that such person is unable to furnish the fuller or further returns or fuller or further information referred to in subsection (12) of section 106, or the documents or the other documents referred to in subsection (13) of section 106, relating to such trade or business, the Commissioner-General shall, where such nonresident person makes a declaration of such inability, ascertain such profits as a percentage of the sum receivable by such person from such trade or business:

computed as a percentage of the receipts.

Provided that such percentage shall in no circumstances, be less than six.

84. Where a non-resident person carries on in Sri Lanka any agricultural, manufacturing or other productive undertaking, and sells any product of such undertaking outside Sri Lanka or for delivery outside Sri Lanka, whether the contract is made within or outside Sri Lanka, the full profit arising from the sale in a wholesale market shall be deemed to be income arising in or derived from Sri Lanka, within the meaning of section 2:

Profits of nonresident Person from sale of Exported produce.

Provided that, if it is shown that the profit has been increased through treatment other than handling, blending, sorting, packing and disposal of the product outside Sri Lanka, such increase of profit shall not be deemed to be income arising in or derived from Sri Lanka.

Where any such product is not sold in a wholesale market, or is not sold at all, such person shall be deemed to derive profits from Sri Lanka within the meaning of section 2, and such profits shall be deemed to be not less than the profits which might have been obtained, if such person had sold such product wholesale to the best advantage.

85. The profits of a non-resident person from employment by a resident person shall be chargeable with income tax insofar as such profits arise from services or past services, rendered in Sri Lanka.

Liability to income tax of certain profits of non-resident person.

86. (1) Where the assessable income for any year of assessment of an individual deemed to be non-resident under subsection (7) of section 79, consists solely of income from services rendered in Sri Lanka and does not exceed three hundred thousand rupees, such income shall not be taxable.

Exemption from income tax of non-resident persons in certain cases and liability of certain nonresident persons to income tax at reduced rates.

(2) Subject to the provisions of subsection (3), where a non-resident person receives any sum by way of dividend from a non-resident company or by way of interest, annuity, ground rent, or royalty which has been disallowed or excepted under subsection (2) of section 76, such sums shall not be regarded as income of such non-resident person arising in or derived from Sri Lanka, and he shall not be chargeable with income tax or entitled to any repayment of tax, in respect thereof.

(3) Nothing in the provisions of subsection (2) shall operate so as to exclude any sum mentioned in that subsection from the computation of the profits of any trade or business carried on in Sri Lanka, where such sum forms part of the receipts of such trade or business.

(4) Notwithstanding anything in any other provision of this Act, the rate at which income tax is payable by a nonresident person in respect of any royalty received by him from a company with which an agreement has been entered into by the Board of Investment of Sri Lanka under section 17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978, shall not exceed the rate, if any, specified in that agreement as the rate at which income tax is deductible from that royalty.

G – SHIPPING AND OPERATION OF AIRCRAFT

Profits of nonresident ship-owners or charterers.

87. (1) Where a non-resident person carries on the business of ship-owner or charterer and any ship owned or chartered by him calls at a port in Sri Lanka, an amount equal to six per centum of the entire sum receivable on account of the carrying of passengers, mails, livestock and goods shipped in Sri Lanka (other than goods brought to Sri Lanka solely for transshipment) shall, notwithstanding anything to the contrary in any other provision of this Act, be deemed to be his full profits arising from the carriage of such passengers, mails, livestock or goods, and such profits shall be deemed to arise in Sri Lanka.

(2) Where the call of a ship owned or chartered by a nonresident person at a port in Sri Lanka is casual and further calls by that ship or others owned or chartered by that person are unlikely, the provisions of this section shall not apply to the profits of such ship, and no income tax shall be charged thereon.

Master of ship to be an agent.

88. The master of any ship owned or chartered by a non-resident person who is chargeable under the provisions of section 87 shall, (though not to the exclusion of any other agent) be deemed to be the agent of such non-resident person for all the purposes of this Act.

89. (1) In addition to exercising any other powers of collection and recovery provided for in this Act, the Commissioner-General may, where the income tax charged on the income of any person who carried on the business of ship owner or charterer has been in default for more than three months (whether such person is assessed directly or in the name of some other person), issue to the Director-General of Customs or other authority by whom clearance may be granted to that ship, a certificate containing the name of such person and particulars of the income tax in default. On receipt of such certificate, the Director-General of Customs or other authority shall be empowered and is hereby required to refuse clearance from any port in Sri Lanka to any ship owned wholly or partly or chartered by such person, until the tax in default has been paid.

Refusal of clearance for ship where income tax is in arrears.

(2) No civil or criminal proceedings shall be instituted or maintained against the Director-General of Customs or other authority in respect of a refusal of clearance under this section, nor shall the fact that a ship is detained under this section affect the liability of the owner, charterer, or agent to pay harbour dues and charges for the period of detention.

90. (1) Where a non-resident person carries on the business as owner or charterer of aircraft, and any aircraft owned or chartered by him calls at any customs aerodrome in Sri Lanka, his full profits arising from the carriage of passengers, mails, livestock, or goods loaded-into that aircraft in Sri Lanka, shall be deemed to arise in Sri Lanka:

Profits of nonresident Owners or charterers of aircraft.

Provided that this section shall not apply to goods, which are brought to Sri Lanka solely for transfer from one aircraft to another or from an aircraft to a vessel or from a vessel to an aircraft.

(2) Where for any accounting period any non-resident person carrying on business as owner or charterer of an aircraft produces the certificate referred to in subsection (3), the profits arising in Sri Lanka from his business of carriage of passengers, mails, livestock or goods by aircraft for such period, before deducting any allowance for depreciation, shall be a sum bearing the same ratio to the sums receivable in respect of the carriage of passengers, mails, livestock and goods loaded into an aircraft in Sri Lanka, as the ratio for that period shown by that certificate of that total profits to the total sums receivable by him in respect of the carriage of passengers, mails, livestock and goods:

Provided that where such profits have been computed on a basis which differs materially from that specified in the preceding provisions of this Act, the ratio of profits shall be adjusted so as to correspond, as nearly as may be, to the ratio which would have

been arrived at if the profits had been computed in accordance with such provisions.

(3) The certificate shall be one issued by or on behalf of any income tax authority which assesses the full profits of the non-resident person from his business as owner or charterer of an aircraft, and shall certify for any accounting period as regards such business—

(*a*) the ratio of the profits, or where there are no profits, of the loss as computed for the purposes of income tax by that authority, without making any allowance by way of depreciation, to the total sums receivable in respect of the carriage of passengers, mails, livestock, or goods ; and

(*b*) the ratio of the allowance for depreciation as computed by that authority, to the total sums receivable in respect of the carriage of passengers, mails, livestock and goods.

(4) Where at the time of assessment the provisions of subsection (2) cannot for any reason be satisfactorily applied, the profits arising in Sri Lanka may be computed on a fair percentage of the full sum receivable on account of the carriage of passengers, mails, livestock and goods, loaded into an aircraft in Sri Lanka:

Provided that where any person has been assessed for any year of assessment by reference to such percentage, he shall be entitled to claim at any time within three years of the end of such year of assessment, that his liability to income tax for that year be recomputed on the basis provided by subsection (2).

Application of subsection (2) of section 87, section 88, and section 89, to profits of nonresident owners or charterers of any aircraft.

91. (1) The provisions of subsection (2) of section 87 and of section 88 and section 89, shall apply to every nonresident person who carries on business as the owner or charterer of any aircraft, in like manner as they apply in the case of a non-resident person who carries on the business of ship owner or charterer.

(2) In the application of the provisions of subsection (2) of section 87, section 88 and section 89 to any non-resident person who carries on business as owner or charterer of an aircraft—

(*a*) "harbour dues and charges" shall be deemed to include any charges payable to the Government of Sri Lanka or to any person on account of the landing, staying or housing at a customs aerodrome, of any aircraft arriving in or departing from Sri Lanka;

(*b*) "port" shall be deemed to include, a customs aerodrome;

(*c*) "ship" shall be deemed to include aircraft, and "ship owner" shall be construed accordingly;

(*d*) any reference to the granting of clearance to any ship shall be deemed to include a reference to the doing of any act which, under the provisions of any written law, is required or authorized to be done in relation to an aircraft in lieu of the granting of a certificate of clearance under section 63 of the Customs Ordinance, and any reference to the refusal of clearance shall be construed accordingly;

(*e*) any reference to the master of a ship shall be deemed to include a reference to the person having for the time being, control or charge of an aircraft.

H – INSURANCE

Ascertainment of profits of insurance companies.

92. (1) The profits of a company whether mutual or proprietary, from the business of life insurance, shall be the investment income of the Life Insurance Fund, less the management expenses (including commission) attributable to that business:

Provided that where such a company which is not resident in Sri Lanka transacts life insurance business in Sri Lanka, whether directly or through an agent, the profits there from shall be ascertained by reference to such proportion of the total investment income of the Life Insurance Fund of the company, as is equal to the proportion which the premiums from life insurance business in Sri Lanka bear to the total life insurance premiums received by the company, subject to a deduction of—

(*a*) agency expenses in Sri Lanka (including commission); and

(*b*) a fair proportion of the expenses of the head office of the company,

due account being taken in each case, by a set-off against such expenses of any income or profits other than life insurance premiums or investment income.

(2) The profits of a non-resident company whether mutual or proprietary, from the business of insurance (other than life insurance) shall be ascertained by taking the gross premiums from insurance business in Sri Lanka (less any premiums returned to the insured and premiums paid on reinsurance) and deducting therefrom a reserve from unexpired risks at the percentage adopted by the company in relation to its operations as a whole for such risks at the end of the period for which the profits are being ascertained, and adding thereto a reserve similarly calculated for unexpired risks outstanding at the commencement of such period, and from the net amount so arrived at, deducting the actual losses (less the amount recovered in respect thereof

under reinsurance), the agency expenses in Sri Lanka and a fair proportion of the expenses of the head office of the company, due account being taken in each case by set-off against such expenses, of any income or profits other than premiums.

(3) Where the Commissioner-General is satisfied that by reason of the limited extent of the business transacted in Sri Lanka by a non-resident insurance company, it would be unreasonable to require the company to furnish the particulars necessary for the application of subsections (1) and (2), he may notwithstanding the provisions of such subsections, permit the profits of the company to be ascertained by reference to such proportion of the total profits and income of the company as is equal to the proportion which its premiums from insurance business in Sri Lanka bears to its total premiums, or on any other basis which appears to him to be equitable in all the circumstances of the case.

(4) In this section the expression "investment income of the Life Insurance Fund" means ,in the case—

(*a*) of a company whose sole business is life insurance, the whole of its income from investment; and

(*b*) any other company, such part of its income from investment as is fairly attributable to its life insurance business,

other than the amount of any dividend referred to in subsection (5).

(5) Where a dividend is paid by any resident company to any company carrying on the business of life insurance and that dividend consists of any part of the amount of a dividend received by such resident company from another company, that dividend shall not form part of the investment income of the Life Insurance Fund of the company carrying on the business of life insurance.

I – INTEREST, ETC. PAYABLE TO PERSONS OUTSIDE SRI LANKA

Interest on certain loans deemed to be profits and income.

93. Where interest is payable to a non-resident person on a loan obtained from such person and the interest on such loan is borne–

(*a*) directly or indirectly by a person resident in Sri Lanka; or

(*b*) by a non-resident person, where the amount of such loan or part thereof has been brought to or used in Sri Lanka,

such interest shall be deemed to be profits and income arising in or derived from Sri Lanka.

94. Where royalties or fees for technical services are—

Certain royalties or fees for technical services deemed to be profits and income.

(*a*) borne directly or indirectly by a person resident in Sri Lanka; or

(*b*) deductible under section 25,

[$ 24, 9 of 2015]

such royalties or fees for technical services shall be deemed to be profits and income arising in or derived from Sri Lanka.

For the purpose of this section the term "fees for technical services" means payments of any kind, received as consideration for managerial or technical or consultancy services including the provision of services of technical or other personnel other than employment or professional services performed through a fixed base.

95. (1) Where any person or partnership in Sri Lanka pays or credits to any person or partnership out of Sri Lanka, any sum falling due as—

Deduction of income tax from interest, & c, payable to persons outside Sri Lanka.

(a) interest on debentures, mortgages, loans, deposits or advances; or

(b) rent, ground rent, royalty or annuity which is payable either in respect of property in Sri Lanka or out of income arising in Sri Lanka; or

[$ 25, 9 of 2015]

(c) fees for technical services referred to in section 94,

whether such sum is due from him or from another person or from a partnership, he shall be entitled, notwithstanding any agreement to the contrary, to deduct income tax at the appropriate rate specified in the Fourth Schedule to this Act, or where an agreement in force between the Government of Sri Lanka and the Government of any territory in which such person or partnership is resident for the relief of double taxation at the appropriate rate specified in such agreement, on such sum and the amount of tax so deductible shall be a debt due from such person to the Republic and shall be recoverable forthwith or may be assessed and charged upon such person in addition to any income tax otherwise payable by him under this Act:

Provided that–

(*a*) the Commissioner-General may, having regard to the total tax payable under this Act by any person or partnership out of Sri Lanka, by notice in writing, require any person in Sri Lanka to deduct for any year of assessment from any sums to be paid or credited by such person to the

$ 32, 9 of 2008

person or partnership out of Sri Lanka, income tax on such sums at a rate other than the appropriate rate specified in the Fourth Schedule to this Act or the agreement for the relief of double taxation, as the case may be; the tax so deductible shall be recoverable and chargeable as aforesaid; *w.e.f.01.04.2008*

(aa) the deduction of tax under this section from interest on any corporate debt security referred to in paragraph (*g*) of subsection (3) of section 32 and paid or credited on or after April 1, 2008, shall, notwithstanding anything to the contrary in any other provision of this Act, be at the rate of ten *per centum*; *$ 32, 9 of 2008 w.e.f.01.04.2008*

(*aaa*) no deduction shall be made under this section from any interest which is exempt from income tax under any provision of this Act;

(b) the preceding provisions of this subsection shall not apply to any interest paid out of income not arising in Sri Lanka or to interest on any loan or advance made by a banker or to any interest paid to any person on moneys lying to his credit in foreign currency with any foreign currency banking unit; and

(c) for any year of assessment commencing on or after April 1, 2015, no deduction shall be made under this section from any interest paid to any individual on money deposited in any bank or financial institution and tax is deductible on such interest at the rate of two and a half *per centum* as referred to in section 133 of this Act. *[$ 25(4), 9 of 2015]*

(2) Any person who deducts income tax in accordance with the provisions of subsection (1) from any sum paid or credited to a person or partnership out of Sri Lanka, shall issue to such person or partnership a statement in writing showing—

(*a*) the gross amount of such payment or credit;

(*b*) the rate and amount of the tax so deducted;

(*c*) the net amount actually paid or credited.

(3) Where the assessable income of a person includes a sum from which income tax has been deducted in accordance with subsection (1), he shall be entitled on production of statement relating to such sum issued in accordance with subsection (2), to a set-off against the tax payable by him, of the amount shown on such statement as the amount of tax deducted.

96. (1) Every person or partnership who or which makes a payment to any other person who– Deduction of income tax from

payment made to any foreign entertainer or artiste.

(*a*) is not a citizen of Sri Lanka; and

(*b*) carries on or exercises the profession or vocation of an entertainer or artiste,

in respect of services rendered by such other person in Sri Lanka in the course of carrying on or exercising such profession or vocation, shall deduct from such payment income tax at the rate specified in the Fifth Schedule to this Act.

(2) Every person or partnership, who or which deducts income tax in accordance with subsection (1) from any payment made by him to any other person, shall issue a statement to such other person setting out the following particulars:—

(*a*) the gross amount of the payment due;

(*b*) the net amount actually paid.

(3) Where the assessable income of a person or partnership for any year of assessment includes a payment referred to in this section, then, if such person is–

(*a*) liable to pay income tax for that year of assessment, he shall be entitled on production of a statement relating to such payment made in accordance with subsection (2), to deduct from the income tax payable by him, the amount of tax set out in such statement;

(*b*) not liable to pay income tax for that year of assessment, he shall be entitled on production of a statement relating to such payment made in accordance with subsection (2), and subject to the provisions of Chapter XXVIII, to a refund of the amount of tax set out in such statement.

(4) Where any person or partnership who or which is required by subsection (1) to deduct income tax in accordance with that subsection from any payment made by him, fails to deduct such tax, then, if such person is–

(*a*) an individual, such individual;

(*b*) is a company or a body of persons, whether corporate or unincorporated, the secretary, manager or other principal officer of such company or body of persons,

shall be personally liable to pay the tax he was required to deduct under that subsection, and such tax may be recovered from such individual, secretary, manager or other principal

officer, as the case may be, by all the means provided in this Act.

(5) In this section, the expression "profession or vocation of entertainer or artiste" includes the profession or vocation of actor, musician, athlete or acrobat.

J – RELIEF IN CASES OF DOUBLE TAXATION

Effect of agreements for double taxation relief.

97. (1) (*a*) Where Parliament by resolution approves any agreement entered into between the Government of Sri Lanka and the Government of any other territory or any agreement by the Government of Sri Lanka with the Governments of any other territories, 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 that territory, the agreement shall, notwithstanding anything in any other written law, have the force of law in Sri Lanka, in so far as it provides for–

(i) relief from income tax;

(ii) determining the profits or income to be attributed in Sri Lanka to persons not resident in Sri Lanka, or determining the profits or income to be attributed to such persons and their agencies, branches or establishments in Sri Lanka;

(iii) determining the profits or income to be attributed to persons resident in Sri Lanka who have special relationships with persons not so resident ;

(iv) exchange of information ; or

(v) assistance in the recovery of tax payable.

(*b*) Every agreement which is approved by a resolution under paragraph (*a*), shall be published in the *Gazette* together with a notice that it has been so approved.

(*c*) In any case where any agreement referred to in paragraph (*a*) provides that tax payable under the laws of any territory outside Sri Lanka, shall be allowed as a credit against any tax payable in Sri Lanka, the credit to be granted in respect of any Sri Lanka tax upon profits or income arising from any source, shall not exceed the amount of the Sri Lanka tax payable in respect of such profits or income.

(2) (*a*) For the purposes of this section–

(i) "income" shall be calculated as far as may be in accordance with the provisions of this Act relating to the ascertainment of assessable income, but shall not include any sum payable out of such income by way of interest, annuity, ground rent or royalty;

(ii) "Sri Lanka tax" means the amount of income tax payable under this Act before deducting any reliefs under this section, but does not include tax on any sum payable, by way of interest, annuity, ground rent, or royalty out of the income in respect of which the tax is charged.

(*b*) The Sri Lanka rate of tax shall be ascertained by dividing the Sri Lanka tax by the income on which the tax has been paid or is payable, calculated in accordance with paragraph (*a*) of this sub section.

(3) Every agreement entered into between the Government of Sri Lanka and the Government of any other territory and having the force of law in Sri Lanka by virtue of the provisions of section 70 of the Inland Revenue Act, No. 4 of 1963, or section 82 of Inland Revenue Act, No. 28 of 1979, or section 92 of the Inland Revenue Act, No. 38 of 2000, shall be deemed for all purposes to be an agreement approved by Parliament by resolution under subsection (1) of this section.

Relief in respect of Sri Lanka income tax.

98. (1) Where any person or any partnership, referred to in subsection (2), proves to the satisfaction of the Commissioner-General that in respect of his or its income referred to in subsection (2), he or it has paid or is liable to pay for any year of assessment income tax in Sri Lanka and income tax for the corresponding period in any other country, then, such person shall be entitled to relief from income tax payable by him or it in Sri Lanka of an amount equal to the excess, if any, of the income tax in respect of such income payable by him or it in Sri Lanka (before granting any relief under this section), over the income tax in respect of such income, payable by him or it in such other country :

Where however such person or partnership is not liable to pay income tax in respect of such profits and income, for such corresponding period in such other country, such person or partnership shall be entitled to relief equal to the amount of income tax payable in Sri Lanka by such person or partnership in respect of such profits and income, for such year of assessment.

(2) The provisions of subsection (1) shall apply—

(*a*) (i) to any non-resident person or any partnership registered outside Sri Lanka, being a person or partnership who or which provides in Sri Lanka, management consultancy

services in areas specified by the Commissioner-General by notice published in the *Gazette;* or

(ii) to any non-resident person or to any partnership registered outside Sri Lanka, who or which provides in Sri Lanka, architectural, engineering, quantity surveying or construction management services and such other services as may be ancillary thereto, to any resident company, being a company with which an agreement has been entered into by the Board of Investment under section 17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978, and which has in accordance with such agreement invested or agreed to invest in Sri Lanka within the period specified in such agreement, not less than fifty million United States Dollars or its equivalent in any other foreign currency, to meet the cost of–

(*a*) any building purchased or constructed, and of any land, plant, machinery or furniture purchased; and

(*b*) the acquisition of any asset not included in paragraph (*a*), for the use of the undertaking; or

(iii) to any non-resident person or to any partnership registered outside Sri Lanka who or which provides in Sri Lanka, architectural, engineering, quantity surveying or construction management services and such other services as may be ancillary thereto, to any non-resident person or partnership referred to in sub-paragraph (ii);

(*b*) in respect of the profits and income arising in or derived from Sri Lanka from the provision of any service referred to in sub-paragraph (ii) or subparagraph (iii) of paragraph (*a*), by any person or by any partnership referred to in those subparagraphs.

(3) For the purposes of subsection (1), the income tax in Sri Lanka or in any other country, payable by any person or by any partner of any partnership referred to in subsection (2), in respect of his profits and income referred to in subsection (2), shall be computed at the rate equivalent to the quotient obtained by dividing the income tax payable by such person or such partner (before granting any relief under this section) in Sri Lanka, or in such other country, as the case may be, in respect of his taxable income ascertained for the purposes of income tax in Sri Lanka or in such other country, as the case may be, by his taxable income ascertained for the purposes of income tax in Sri Lanka, or in such other country, as the case may be.

K – MISCELLANEOUS

99. Where any provision of this Act expressly relates to any particular source of profits or income referred to in section 3, such provision shall not be applied in the determination of any profits or income arising from any other source referred to in that section.

Applicability of provisions relating to particular sources of profits or income.

100. Where any sum paid as insurance premium is allowable as an expense incurred in the production of profits or income from any trade, business, profession or vocation, any sum realized under such contract of insurance shall be deemed to be—

How certain receipts of insurance are to be treated.

(*a*) a receipt from such trade, business, profession or vocation, if the sum so realized is in respect of stock in trade or loss of profits or any other sum not referred to in sub-paragraph (*b*) or sub-paragraph (*c*) ;

(*b*) an amount realized from the disposal of property, if the sum so realized is in respect of a capital asset on which an allowance for depreciation, within the meaning of subsection (7) of section 25, has been granted and accordingly, the provisions of subsection (3) of that section shall apply to, and in relation to, that amount;

(*c*) a receipt of a capital nature if the sum so realized is in respect of a capital asset on which an allowance for depreciation within the meaning of subsection (7) of section 25 has not been granted:

Provided that the provisions of paragraph (*b*) and paragraph (*c*) shall not be applicable if the sum realized is in respect of a capital asset which is replaced, and in such event the deduction for depreciation in accordance with the provisions of paragraph (*a*) of subsection (1) of section 25, shall be computed on the cost of replacement of such capital asset, less the amount realized under a contract of insurance.

101. (1) Where a body of persons, whether corporate or unincorporate, carries on a club or similar institution and receives from its members not less than three-fourths of its gross receipts on revenue account (including entrance fees and subscriptions), it shall not be deemed to carry on a business; but where less than three-fourths of its gross receipts are received from members, the whole of the income arising from transactions both with members and others (including entrance fees and subscriptions) shall be deemed to be receipts from a business, and the body of persons shall be liable to income tax in respect of the profits therefrom and in respect of the income which would be assessable, if it were not deemed to carry on a business.

Ascertainment of income of clubs, trade associations etc.

(2) Where a body of persons, whether corporate or unincorporate, carries on a trade association, chamber of commerce or similar institution in such circumstances, that more than half its receipts by way of entrance fees and subscriptions are from persons who claim or would be entitled to claim that such sums were allowable deductions for the purpose of section 25, such body of person shall be deemed to carry on a business, and the whole of its income from transactions both with members and others (including entrance fees and subscriptions) shall be deemed to be receipts from a business, and the body of persons shall be liable to income tax either in respect of the profits therefrom or in respect of the income which would be assessable, if it were not deemed to carry on a business, whichever is the greater.

(3) In this section, "members", in relation to a body of persons, means those persons who are entitled to vote at a general meeting of the body which exercises effective control over its affairs.

(4) Nothing in this section shall be read and construed as affecting any exemption granted under Chapter III.

(5) The provisions of Chapter X shall not apply to any body of persons which is a body corporate and which is assessable for income tax under this section.

102. (1) Where any non governmental organization as defined in subsection (2) of this section, receives in any year of assessment any money in the form of a grant, donation, contribution or in any other form, an amount equal to three *per centum* of the aggregate of such money after deducting from such aggregate any part of such money as is received from the Government of Sri Lanka, shall, notwithstanding anything to the contrary in any other provision of this Act, be deemed to be the profits and income attributable to the aggregate of such money (hereinafter in this section referred to as "deemed profits and income") of such non- governmental organization for that year of assessment, and such deemed profits and income of such nongovernmental organization for such year of assessment, shall be deemed to have arisen in Sri Lanka.

Deemed profits and income of any nongovernmental organization to be chargeable with income tax.

$ 26, 10 of 2007 w.e.f.01.04.2006

(2) For the purposes of subsection (1) a "non- governmental organization" means any organization or association, whether corporate or unincorporate, formed by a person or a group of persons on a voluntary basis and which is non- governmental in nature, dependent on money received in the manner referred to in subsection (1) and established and constituted for the provision or relief and services of a humanitarian nature to the poor and destitute, the sick, orphans, widows, youth, children or generally for the provision of relief to the needy, unless such organization or association is determined by the Commissioner-General not to be a non-governmental organization for the

purposes of this section, but does not include any approved charity within the meaning of paragraph (*a*) of subsection (8) of section 34, in respect of which any remission or reduction has been granted under subsection (3) of section 35.

(3) The deemed profits and income of a nongovernmental organization shall, subject to the provisions of paragraph (*e*) of section 7, be chargeable with income tax at the appropriate rate specified in the Fifth Schedule to this Act :

Provided that where the Commissioner- General is satisfied that any non-governmental organization is engaged, in any year of assessment, in :—

(a) rehabilitation and the provision of infrastructure facilities and livelihood support to displaced persons in any area identified by the Government for the purposes of such rehabilitation and provision; or

(*b*) any other activity approved by the Minister as being of humanitarian in nature, taking into consideration the nature and gravity of any disaster and the magnitude of relief required to be provided consequently,

the Commissioner-General may reduce or remove the tax payable by such non-governmental organization for that year of assessment, if it appears to him that such reduction is just and equitable in all the circumstances of the case.

$ 33, 9 of 2008 w.e.f.01.04.2008

103. Where an Assessor or Assistant Commissioner is of the opinion that any transaction which reduces or would have the effect of reducing the amount of tax payable by any person is artificial or fictitious or that any disposition is not in fact given effect to, he may disregard any such transaction or disposition and the parties to the transaction or disposition shall be assessable accordingly.

Certain transactions and dispositions to be disregarded.

In this section "disposition" includes any trust, grant, covenant, agreement, or arrangement.

104. (1) Any profits and income arising, derived or accruing from, or any loss incurred in any international transaction entered into between two associated undertakings shall be ascertained having regard to the arm's length price.

Profits and income or loss from international transactions between associated undertakings to be determined having regard to the arm's length price.

(2) Where it appears to an Assessor or Assistant Commissioner that the profits and income or the loss referred to in subsection (1), has not been as ascertained having regard to the arm's length price, he may refer the computation of the arm's length price in

$ 34, 9 of 2008 w.e.f.01.04.2008

relation to such international transaction to a Transfer Pricing Officer. The Transfer Pricing Officer may, in writing addressed to the person who carries on either the one or the other or both of the two associated undertakings referred to in subsection (1), require him to prove to the satisfaction of the Transfer pricing Officer, that such profits and income or such loss, as the case may be, has in fact been ascertained having regard to the arm's length price. Where such person fails to so prove, the Transfer Pricing Officer may determine the arm's length price and inform it to the Assessor or Assistant Commissioner. Thereupon the Assessor or Assistant Commissioner may estimate the amount of the profit and income or the loss, as the case may be, referred to in subsection (1), and make an assessment accordingly.

$ 25, 18 of 2013 w.e.f.01.04.2013

(3) The arm's length price referred to in subsection (1) shall be determined on the basis of any one or more of the methods, prescribed for that purpose.

(3A) An advance pricing agreement may be entered into between any person and the Commissioner-General in respect of arm's length price for the purposes of this section on the basis of a prescribed manner.

$ 25, 18 of 2013 w.e.f.01.04.2013

(4) For the purposes of this section—

(*a*) an undertaking shall be deemed to be an associated undertaking of another undertaking, if the first mentioned undertaking participates directly or indirectly or through one or more intermediaries, in the control of the second-mentioned undertaking in such manner or to such extent as may be prescribed;

(b) "arm's length price" means a price which is applied in uncontrolled conditions in a transaction between persons, other than associated undertakings;

$ 25, 18 of 2013 w.e.f.01.04.2013

"international transaction" means a transaction between two or more associated undertakings, either one or both of whom are non-residents, in the nature of purchase, sale or lease of tangible or intangible property, or provision of services, or lending or borrowing money or any other transaction having a bearing on the profits, income, losses or assets of such undertakings, and includes any allocation or apportionment of, or any contribution to any cost or expense incurred or to be incurred in connection with a benefit, service or facility provided or to be provided to any one or more of such undertakings under any mutual agreement or arrangement between two or more such associated undertakings. Any transaction entered into by an undertaking with a person, either one is non-resident, other than an associated undertaking shall, for the purposes

of subsection (1) be deemed to be an international transaction entered into between two associated undertakings, if there exists a prior agreement between such undertaking and other person and, by which the terms of such transaction are determined in substance between such undertaking and other person which results in the reduction of or would have the effect of reducing the amount of tax payable.

Without prejudice to the generality of the provision of this subsection, the allowance for any expense or interest arising from an international transaction shall also be determined having regard to the arm's length price;

"Transfer Pricing Officer" means any officer of Inland Revenue prescribed by the Commissioner - General as a Transfer Pricing Officer.

104A (1) Any profits and income arising, derived or accruing from, or any loss incurred in any transaction, other than transactions referred to in subsection (1) of section 104, entered into between two associated undertakings shall be ascertained having regard to the arm's length price.

Profits and income or loss from transactions between associated undertakings to be determined having regard to the arm's length price.

$ 26, 18 of 2013 w.e.f.01.04.2013

(2) Where it appears to an Assessor or Assistant Commissioner that the profits and income or the loss referred to in subsection (1), has not been ascertained having regard to the arm's length price, he may, in writing addressed to the person who carries on either the one or the other or both of the two associated undertakings referred to in subsection (1), require him to prove to the satisfaction of the Assessor or Assistant Commissioner that such profits and income or such loss, as the case may be, has in fact been ascertained having regard to the arm's length price. Where such person fails to so prove, the Assessor or Assistant Commissioner may estimate the amount of the profit and income or the loss, as the case may be, referred to in subsection (1), and make an assessment accordingly.

(3) The arm's length price referred to in subsection (1) shall be determined on the basis of any one or more of the methods, prescribed for that purpose.

(4) For the purposes of this section-

(a) an undertaking shall be deemed to be an associated undertaking of another undertaking, if the first-mentioned undertaking participates directly or indirectly or through one or more intermediaries, in the control of the second-mentioned undertaking in such manner or to such extent as may be prescribed;

(b) "arm's length price" means a price which is applied in

uncontrolled conditions in a transaction between persons other than associated undertakings.

L – PETROLEUM EXPLORATION AND EXPLOITAION

105. (1) Any person or partnership which has entered into an agreement as a contractor or sub-contractor under the Petroleum Resources Act, No 26 of 2003, shall, notwithstanding the provisions of section 79 of this Act, be deemed to be resident in Sri Lanka during the tenure of such contract or sub contract, as the case may be, for the purposes of this Act.

Ascertainment of profits and income from business of petroleum exploitation under a Petroleum Resources Agreement.

(2) The turnover from exports and local sales of petroleum exploited under any Petroleum Resources Agreement referred to in subsection (1), shall be determined on the basis of accepted commercial practices and be subject to any specific provisions in the Petroleum Resources Agreements, entered into under Petroleum Resources Act, No. 26 of 2003.

(3) The profits and income from the business of petroleum exploitation under any Petroleum Resources Agreement referred to in subsection (1), shall be ascertained after allowing the following deductions in addition to other allowable expenses under the provisions of this Act, and shall notwithstanding anything to the contrary in any other provision of this Act, be chargeable with income tax at the appropriate rate specified in the Fifth Schedule to this Act, provided that the same item of expenditure shall not be deducted more than once—

$ 30, 8 of 2014 w.e.f.01.04.2014

(a) payments made to service sub-contracts for conducting petroleum operations;

(*b*) one hundred *per centum* of the cost of acquisition of any plant, machinery or equipment used for the recovery of petroleum resources, in lieu of the allowance for depreciation or cost of renewal under section 25. Any proceeds realized on the sale of such assets shall be considered as a receipt from such business;

(*c*) interest expenses;

(*d*) royalty paid on petroleum resources recovered under any Petroleum Resources Agreement. However, this amount shall not be allowed as a deduction under section 32;

(*e*) all expenses on the development and production of petroleum, including capital expenses, where a deduction under paragraph (*b*) above has not been granted;

(*f*) in the year of first commercial production, all costs incurred by any contractor in the exploration for

unsuccessful wells in exploration blocks under any Petroleum Resources Agreement, upto and including such year of first commercial production;

(*g*) any costs incurred by any contractor in the exploration for unsuccessful wells in exploration blocks under any Petroleum Resources Agreement in any year of assessment, after the first commercial production.

M - ISLAMIC FINANCIAL TRANSACTIONS

105A. (1) The profits and income arising from any Islamic financial transaction relating to any Islamic financial instrument shall be treated for tax purposes under the provisions of the Act, as hereinafter provided in this section.

Profits and income arising from Islamic financial transactions are taxed.
$ 28,22 of 2011 w.e.f.01.04.2011

(2) The Profits and income arising to any person or partnership out of any Islamic financial transaction shall, where such transaction is similar or equivalent in substance, to any conventional financial transaction under the provisions of the Act, be subject to tax in similar manner as such conventional financial transaction is taxed under the Act.

(3) The Commissioner-General of Inland Revenue shall in order to determine the extent of liability to tax of any particular Islamic financial transaction, issue from time to time, such rules and guidelines as may be required for the purpose of —

(*a*) identifying the circumstances which would amount to an Islamic financial transaction; and

(b) ascertaining the profit and income arising out of any Islamic financial transaction.

105B. (1) The Minister may, on the recommendation of the Commissioner-General make regulations for the purpose of authorizing or facilitating the use of electronic communications or electronic records in respect of matters specified in section 8 of the Electronic Transactions Act, No. 19 of 2006.

The use of electronic communications or electronic records.

[$ 26, 9 of 2015]

(2) For the purpose of application of the electronic means in filing returns, submitting information and documents, the relevant sections of the Act are amended as follows which shall come into effect on such date as the Minister may appoint by Order published in the Gazette.

(a) in sections 28(4), 36(2)(*b*), 70(1), 73(1), 76(3), 104(2), 104A(2), 111, 112, 118, 122, 125(1), 130, 133, 162, 163, 165 and 177 by the substitution for the words “in writing” wherever it occurs in those sections, of the

words “in writing or electronic means”, respectively;

(b) in sections 106 and 107 the words “in writing”, wherever it arising relating to the filing of return, issue of notices, submission of information or documents for the purposes of those sections, by the substitution, of the words “in writing or electronic means”, respectively;

(c) in section 107 in paragraph (*a*) and in paragraph (*b*) of the proviso of subsection (1) of that section, by the substitution for the words “published in the *Gazette*.”, of the words “published in the *Gazette* or official website of the Department of Inland Revenue.”, respectively.

CHAPTER XII
RETURNS &C.

106. (1) Every person who is chargeable with income tax under this Act for any year of assessment shall, on or before the thirtieth day of November immediately succeeding the end of that year of assessment, furnish to an Assessor or Assistant Commissioner, either in writing or by electronic means, a return in such from and containing such particulars as may be specified by the Commissioner-General, of his income, and if he has a child, the income of such child:

Returns and information to be furnished.

$ 16, 19 of 2009 w.e.f.01.04.2009

Provided however, the preceding provisions shall not apply to an individual whose income for any year of assessment comprises solely of one or a combination of the following–

(a) profits from employment as specified in section 4 and chargeable with income tax, does not exceed-

$ 16, 19 of 2009 w.e.f.01.04.2009

(i) rupees four hundred and twenty thousand, where such year of assessment is any year of assessment ending on or before March 31, 2009; or

(ii) rupees one million, where such year of assessment is any year of assessment commencing on or after April 1, 2009,

and income tax under Chapter XIV has been deducted by the employer on such profits from employment;

(*b*) dividends chargeable with tax on which tax at ten *per centum* has been deducted under subsection (1) of section 65;

(c) income from interest chargeable with tax on which income tax at the rate specified for the purpose of deduction has been deducted under section 133, section 134 or section 135, as the case may be:

$ 27, 10 of 2007 w.e.f.30.03.2007

$ 29,22 of 2011 w.e.f.01.04.2011

Provided further, that for any year of assessment commencing on or after April 1, 2011, the preceding provisions shall not apply to an individual being an employee who has no any other income chargeable with income tax other than any income referred to in sub-paragraph (b) or sub-paragraph (*c*).

[$ 27, 9 of 2015]

(2) Any person who carries on any trade, business, profession or vocation, including any company which has entered into any agreement with the Board of Investment of Sri Lanka established under the Board of Investment of Sri Lanka Law, No. 4 of 1978, shall obtain a registration number within one year of such registration or incorporation or commencement of the activity, as the case may be, from the Commissioner-General, and furnish a return on or before the thirtieth day of November following the end of each year of assessment, containing such particulars and documents as may be specified by the Commissioner-General, notwithstanding that no tax is chargeable under this Act on such person.

$ 16, 19 of 2009 w.e.f.01.04.2009

(3) (*a*) The Commissioner General shall issue a certificate of registration containing the name, address, registration number and any other particulars as determined by him, to all such persons registered under subsection (2).

(b) It shall be the duty of the Registrar of Companies, notwithstanding anything to the contrary contained in any provision of the Companies Act, No, 17 of 1982, to obtain the certificate issued by the Commissioner-General under subsection (2), as an integral part of the annual return filed under such Companies Act–

(i) in relation to any company registered before such date as may be determined by the Commissioner- General, by a notice published in that behalf, along with any annual return due in respect of any financial year;

(ii) in relation to any company registered on or after the date determined by the Commissioner-General under sub-paragraph (1), along with the first annual return due to be submitted by such company.

(c) The date as determined by the Commissioner General under sub-paragraph (i) of paragraph (b) shall immediately upon such determination, be forthwith communicated to the Registrar of Companies, by the Commissioner-General.

(4) (a) Every company deemed to be a resident in Sri Lanka under section 79 of this Act, shall submit a return to the Commissioner-General for each year on a half yearly basis on or before October, 31 and April 30, of dividends declared, containing such particulars as specified by him, including the details of dividends declared during the period April to September and October to March respectively. Where no dividends have been declared during any such period, a "NIL" return shall be submitted.

(*b*) Every company not deemed to be a resident in Sri Lanka, shall submit a return to the Commissioner-General on a half yearly basis on or before October 31 and April 30, of remittances made by such company as referred to in paragraph (*b*) of subsection (1) of section 62 containing such particulars as specified by him, including the details of remittances made during the period April to September and October to March respectively, in each year. Where there were no remittances made during such period covered by such return, a "NIL" return shall be submitted.

(5) (a) Any individual who satisfies any four requirements out of the five requirements specified in paragraph (b) of this subsection during any year of assessment, shall submit a return of income to the Commissioner-General not later than one month after the fulfillment of such requirement.

(*b*) For the purpose of paragraph (*a*) of this subsection, the requirements are as follows :-

(i) paying a monthly residential electricity bill exceeding a net amount of ten thousand rupees ;

(ii) incurring a monthly credit card bill exceeding twenty five thousand rupees ;

(iii)paying a monthly residential telephone bill exceeding a net amount of ten thousand rupees ;

(iv) purchasing an air ticket to travel abroad ; and

(v) owning a motor vehicle which is used for traveling purposes.

(6) Every person chargeable to pay income tax under any provision of this Act shall be required to declare —

(*a*) the value of every asset and liability at the last day of any year of assessment ; and

(*b*) any profits or income exempted from the payment of income under this Act for any year of assessment.

(7) A Commissioner may give notice in writing to any person requiring him to furnish within the time specified in such notice a return in such form and containing such particulars as may be specified by the Commissioner-General of, his income and, if he has a child, the income of such child.

(8) Every person who furnishes a return of income which is not in such form and does not contain such particulars as are specified by the Commissioner-General for the purposes of the foregoing subsections, shall be deemed for the purposes of this Act, not to have furnished a return of his income.

(9) Where any person furnishes a return of income on or before the date specified in subsection (1) for any year of assessment and is deemed, under the provisions of subsection (8), not to have furnished a return of income, the Assessor or Assistant Commissioner shall, before the expiry of thirty days from the end of the year of assessment immediately succeeding that year of assessment inform such person in writing, that the return furnished by him is not in such form or does not contain such particulars as is or are specified by the Commissioner-General.

(10) Where any person receives an intimation under subsection (9), such person may within thirty days of receipt of such intimation, furnish necessary particulars required to make such return a proper return, and the provisions of subsection (8) shall thereafter not apply in respect of such return.

$ 29,22 of 2011 w.e.f.01.04.2011

(11) Where any person or partnership carries on or exercises any trade, business, profession or vocation in several units or undertakings as one trade, business, profession or vacation, as the case may be, or where such person or partnership carries on or exercises more than one trade, business, profession or vocation and the profits and income from any such unit or undertaking or from such trade, business, profession or vocation is exempted from or chargeable with income tax at different rates, such person or partnership shall maintain and prepare statements of account in a manner that the profits and income from each such unit or undertaking or such trade, business, profession or vocation as the case may be, may be separately identified.

(12) An Assessor or Assistant Commissioner may give notice in writing to any person when and as often as he thinks necessary, requiring him to furnish within the time specified in such notice:—

(*a*) fuller and further returns; or

(*b*) fuller and further information relating to any matter as is in the opinion of the Assessor or Assistant Commissioner necessary or relevant for the assessment of the income tax, payable by such person.

(13) For the purpose of obtaining full information in respect of any person's income, an Assessor or Assistant Commissioner may give notice in writing to such person requiring him—

(*a*) to produce for examination, or transmit to the Assessor or Assistant Commissioner within the period specified in such notice, any such deeds, plans, instruments, books, accounts, trade lists, stock lists, registers, cheques, paying-inslips, auditor's reports or other documents in his possession as may be specified in such notice;

(*b*) to attend in person or by an authorized representative at such place and on such date and at such time as may be specified in the notice, for the purpose of being examined regarding his income.

(14) For the purposes of this Act, a Commissioner may give notice in writing to any person requiring him–

(a) to attend in person or by an authorized representative at such place and on such date and at such time as may be specified in such notice, so that he may be examined on any such matter as may be specified in the notice;

(b) to produce before or transmit to such Commissioner within the period specified in such notice, any such deeds, plans, instruments, books, accounts, trade lists, registers, cheques, paying-in slips, auditors' reports or other documents in his possession, as may be specified in such notice;

(c) to furnish within the period specified in such notice such information as may be called for in that notice, in relation to any transactions between such person and any other person or class of persons.

Where a notice has been given to any person under this subsection requiring him to furnish any information, such person shall comply with the requirements of such notice, notwithstanding anything to the contrary in any other law prohibiting the furnishing of such information.

For the avoidance of doubts, it is hereby declared that any reference in this subsection to "any person" include a reference to a banker.

(15) A person who attends in compliance with a notice given under subsection (14) may be allowed by the Commissioner-General, such expenses as are reasonably incurred by him in so attending.

(16) A Commissioner or an Assessor or Assistant Commissioner with the approval of a Deputy Commissioner, may retain in his custody, as long as such retention is necessary for any purposes of this Act, any deeds, plans, instruments, books, registers, accounts, trade lists, cheques, paying-in-slips, auditors' reports or other documents which are or have been produced before him or transmitted to him under subsection (14) or produced before an Assessor or Assistant Commissioner or transmitted to an Assessor or Assistant Commissioner under subsection (13) or which otherwise come or have come into his possession:

Provided however, such retention by an Assessor or Assistant Commissioner shall not be valid after the expiry of a period of five years from the end of the relevant year of assessment.

(17) A return, statement or form purporting to be furnished under this Act by or on behalf of any person, shall be deemed for all purposes to have been furnished by that person or by his authority, as the case may be, unless the contrary is proved, and any person signing any such return, statement or form shall be deemed to be cognizant of all matters contained therein.

(18) For the purpose of this section, the expression "document" includes any diskette, tape, compact disc or any other thing in which any computer programme or data is stored or recorded in codified form or electronic, magnetic or other medium.

$ 29,22 of 2011 w.e.f.01.04.2011

(19) The Commissioner-General may close any record maintained by him of any individual subsisting on or after April 1, 2011 if he is satisfied on application made by such individual, that all profits and income of such individual are derived only from sources from which whose taxes are paid at sources and such taxes are treated as final.

$ 31, 8 0f 2014 w.e.f.01.04.2014

(20) For the purposes of this Act, the Commissioner-General may give notice in writing to any person requiring him to furnish within the period specified in such notice, any information in relation to any transaction between such person and any other person or class of persons.

107. (1) An Assessor or Assistant Commissioner may give notice in writing to a partner of a partnership or to any other person, who carries on or exercises any trade, business, profession or vocation, requiring such person to furnish within the period specified in such notice, all particulars as may be necessary for the ascertainment of the statutory income in respect of any year

Audit reports to be furnished by partners etc.

of assessment, including a statement of accounts and any schedules containing such particulars as may be specified in the notice of such trade, business, profession or vocation, for that year of assessment or for any period in respect of which the statutory income for that year of assessment is computed:

Provided that–

(*a*) Where such trade, business, profession or vocation is being carried on or exercised by any quoted public company, any other company which is a member of a group of companies of which at least one company is a quoted public company, or any other company having an annual turnover of not less than two hundred and fifty million rupees or net profit of not less than one hundred million rupees for that year, then, notwithstanding that a notice under this section has not been given to such quoted public company, other member company of the group, or other company, furnish for that year of assessment or for that other period, in respect of which the statutory income for that year of assessment is computed, such statement and such schedules as may be specified by the Commissioner-General, by notice published in the *Gazette*, *$ 35, 9 of 2008 w.e.f.01.04.2006*

$ 21, 8 of 2012 w.e.f.01.04.2012

(*b*) where such trade, business, profession or vocation is carried on or exercised by any partnership, or by any person other than any company having a turn over of not less than fifty million rupees or in the case of a partnership, a divisible profit of not less than twenty-five million rupees or in the case of any other person, a net profit of not less than twenty five million rupees for the year, such partner or such person shall notwithstanding that a notice under this section has not been given to him, furnish for such year of assessment or for such period , as the case may be, such statements and such schedules as may be specified by the Commissioner-General by notice published in the *Gazette*.

(2) Where a statement of accounts in support of a return of income furnished by any person for the purposes of this Act, is prepared by an approved accountant, such statement shall be accompanied by–

(*a*) a certificate of an approved accountant in such form and containing such particulars, as may be specified by the Commissioner-General; and

(b) schedules containing such particulars relating to the statement of accounts, as may be specified by the commissioner-General;

Provided that a statement of accounts in support of a *$ 35, 9 of 2008*

return of income for any year of assessment or for any other period on the profits of which the statutory income for that year of assessment is computed - *w.e.f.01.04.2006*

(a) furnished by any quoted public company, any other company which is a member of a group of companies of which at least one company is a quoted public company, in respect of any trade, business, profession or vocation carried on or exercised by such quoted public company; *$ 21, 8 of 2012 w.e.f.01.04.2012*

(*b)* furnished by any other company in respect of any trade, business, profession or vocation carried on or exercised by such company, where the turnover from such trade, business, profession or vocation, for that year of assessment or for that other period, is not less than two hundred and fifty million rupees or the statutory income from that trade, business, profession or vocation for that year of assessment or for that other period, is not less than one hundred million rupees; or

(c) furnished by any partner of any partnership or by any person other than a company, in respect of any trade, business, profession or vocation carried on or exercised by such partnership or by such person, where the turnover from such trade, business, profession or vocation, for that year of assessment or for that other period, is not less than fifty million rupees or the divisible and profits of that partnership or the statutory income of such person, from that trade, business, profession or vocation for that year of assessment or for that other period, as the case may be, is not less than twenty five million rupees.

Shall be prepared on the basis of an audit by an approved accountant.

(3) For the purposes of this section–

(*a*) "approved accountant" for any year of assessment commencing prior to April 1, 2014 means– *$ 32, 8 of 2014*

(i) an accountant who is a member of the Institute of Chartered Accountants of Sri Lanka;

(ii) an accountant who is approved by the Commissioner-General for the purpose of the definition of authorized representative;

(iii) any individual who is registered as an auditor under the Companies (Auditors) Regulations and approved by the Commissioner-General for the

purpose of the definition of"authorized representative"; or

(f) an auditor authorized to carry out audits of cooperative societies registered under the Cooperative Societies Law, No. 5 of 1972, in relation to any such co-operative society where the turnover of such society for the year does not exceed fifty million rupees;

(aa) "approved accountant" for any year of assessment commencing on or after April 1, 2014 means: *$ 32, 8 of 2014* (Repealed)

[$ 28, 9 of 2015]

(i) an accountant who is a member of the Institute of Chartered Accountants of Sri Lanka; or

(ii) an accountant who is a fellow member of the Association of Accounting Technicians of Sri Lanka incorporated under the Companies Act, No. 07 of 2007 in relation to any person other than a company, or any partnership where the turnover of the business of such person or partnership for the year does not exceed five hundred million rupees;

(b) "net profit" in relation to any trade, business, profession or vocation, means net profit ascertained in accordance with accepted commercial practices and accounting standards and the operational profits calculated in accordance with the Sri Lanka Financial Reporting Standards; *$ 32, 8 of 2014 w.e.f. 1.4.2014*

(c) "turnover" in relation to any trade, business, profession or vocation and to any period, means the total amount received or receivable from transactions entered into, or, for services performed, during that period in carrying on or exercising such trade, business, profession or vocation (excluding any amount received or receivable from the sale of capital assets).

108. (1) Every individual who is chargeable with income tax under this Act, for any year of assessment shall, for the purposes of this Act, – Returns and other documents to contain the national identity card number or passport number.

(*a*) indicate in his return of income for such year of assessment–

(i) his identity card number, if he is a person liable for registration under the Registration of Persons Act, No. 32 of 1968; or

(ii) the number in his current passport, if he is not liable to registration under the aforesaid Act;

(*b*) indicate in the documents relating to any transaction specified by the Minister by notice published in the *Gazette*, having regard to the need to ensure the equitable administration of the provisions of this Act—

(i) his identity card number, if he is a person liable to registration under the aforesaid Act; or

(ii) the number in his current passport, if he is not liable to registration under the aforesaid Act.

$ 22, 8 of 2012

(2) Every company or partnership or body of persons which is chargeable with income tax under this Act, for any year of assessment, shall for the purposes of this Act, indicate its registration number under the Business Names Act No. 7 of 1987 or the Companies Act, No. 7 of 2007, as the case may be, in–

(*a*) its return of income for that year of assessment; and

(*b*) all such documents relating to all such transactions as are specified by the Minister under paragraph (*b*) of subsection (1).

Returns to be furnished of income received on account of or paid to other persons.

109. Where any person in any capacity whatever—

(*a*) receives any profit or income liable to tax within the meaning of this Act, and which have accrued or arisen to some other person; or

(*b*) pays to some other person, or to his order, any such profits or income,

an Assessor or Assistant Commissioner may give notice to such first-named person requiring him to furnish within the period specified in such notice, a return containing—

(i) a true and correct statement of all such profits and income; and

(ii) the name and address of every person to whom such profits and income have accrued or arisen.

Occupiers to furnish returns of rent payable.

110. An Assessor or Assistant Commissioner may give notice in writing to any person who is the occupier of any land or building, requiring him to furnish within the period specified in such notice, a return containing–

(*a*) the name and address of the owner of such land or building;

(*b*) any improvements effected to such land or building;

(*c*) a true and correct statement of the rent payable and any other consideration passing in relation thereto.

111. An Assessor or Assistant Commissioner may give notice in writing to any person requiring him within the period specified in such notice, to furnish a return containing the name of every lodger or inmate who is at the date of the notice resident in his house, hotel or institution and has been so resident, except for temporary absences, throughout the period of three months preceding that date.

Return of lodgers and inmates.

112. (1) Where–

Power of Commissioner-General to impose penalty for failure to furnish return.

(*a*) any person fails to comply with a notice in writing given to him a Commissioner under subsection (7) of section 106 requiring him to furnish, within the time specified in such notice, a return of his income, and if he has a child, the income of such child;

(*b*) any person fails to furnish within the time specified in subsection (1) of section 106, a return which he is required to furnish under that section;

(*c*) any employer fails to comply with any requirement of the provisions of section 120;

$ 28, 10 of 2007 w.e.f.30.03.2007

(*d*) any individual fails to furnish within the time specified in sub section (5) of section 106, a return which such individual is required to furnish under that section; or

$ 28, 10 of 2007 w.e.f.30.03.2007

(*e*) where any precedent partner of a partnership fails to furnish within the time specified in a notice given under subsection (3) of section 76, a return which such precedent partner is required to furnish under that subsection,

$ 28, 10 of 2007 w.e.f.30.03.2007

the Commissioner -General may—

(i) impose on such person or on such employer, a penalty of a sum not exceeding fifty thousand rupees, and give notice in writing to such person or employer, of the imposition of such penalty; and

(ii) by notice in writing require such person or such employer—

(*a*) to pay such penalty; and

(*b*) to furnish such return where such return has not been furnished, or to comply with such requirement where such requirement has not been complied with,

within such period as may be specified in such notice.

(2) The Commissioner-General may reduce or waive any penalty imposed on any person or on any employer under this section, if

such person or such employer, as the case may be, proves to the satisfaction of the Commissioner-General that the failure to furnish such return or to comply with such requirement, as the case may be, was due to circumstances beyond his control and that he has furnished such return or has complied with such requirement, as the case may be.

(3) Where a penalty is imposed on any person or on any employer under subsection (1), such person or such employer shall not be liable to prosecution for any offence under paragraph (a) or paragraph (d) of subsection (1) of section 202 or under paragraph (b) of subsection (2) of section 202 relating to that notice or requirement.

CHAPTER XIII
PAYMENT OF TAX BY SELF-ASSESSMENT

Payment of tax by self assessment.

113. **(**1) Any income tax which any person or partnership is liable to pay under this Act for any year of assessment shall be paid by such person or partnership to the Commissioner-General in four instalments on or before the fifteenth day respectively of August, November and February in that year of assessment and the fifteenth day of May of the next succeeding year of assessment, notwithstanding that no assessment has been made on him or it by an Assessor or Assistant Commissioner. Each such instalment is hereinafter referred to as a "quarterly instalment".

(2) The quarterly instalment of a tax payable by any person or partnership for any year of assessment shall be one-quarter of the tax payable by him or it for that year of assessment.

$ 29, 10 of 2007 w.e.f.30.03.2007

(3) Notwithstanding anything contained in sub section (1) and subsection (2) of this section, the entirety of the tax payable :—

(*a*) (i) by any company resident in Sri Lanka, under sub-paragraph (i) of paragraph *(b)* of subsection (1) of section 61; or

(ii) by any company not resident in Sri Lanka, under paragraph (*b*) of subsection (1) of section 62 in respect of remittances made by such company,

shall be paid on or before the thirtieth day succeeding the date of distribution of such dividends or making such remittances, as the case may be;

$ 17, 19 of 2009 w.e.f.01.04.2006

(b) by any company resident in Sri Lanka, under sub-paragraph (ii) of paragraph *((b)* of subsection (1) of section 61, shall be paid on or before the thirtieth day of October of that year of assessment for which such tax is payable.

(4) The amount of any quarterly instalment of income tax payable by any individual for any year of assessment shall be reduced by ten per centum thereof, if such individual pays the amount of such quarterly instalment as so reduced, not less than thirty days prior to the date on or before which such instalment is required to be paid under subsection (1); where any individual has so paid the amount of any quarterly instalment as so reduced, such individual shall be deemed for all purposes to have paid such quarterly instalment without any reduction.

$ 17, 19 of 2009 w.e.f.01.04.2006

(5) Any bank or financial institution shall invest five per centum of its taxable income in such instalment as may be specified by the Commissioner-General on or before the same dates as specified for income tax purposes in subsection (1) of this section in the investment fund established in accordance with the guidelines issued for this purpose by the Central Bank of Sri Lanka with the concurrence of the Commissioner-General for a period of three years commencing from April 1, 2011 or where such bank or financial institution is established after April 1, 2011, then, from the date of such establishment.

$ 23, 8 of 2012 w.e.f.01.04.2012

(6) Where any bank or financial institution which is required to invest in the investment fund referred to in subsection (5), has not utilized in accordance with the guidelines issued by the Central Bank of Sri Lanka, any part of the funds lying to the credit of the fund as at July 1, 2013, such balance shall be deemed to be a debt due to the Government by such bank or financial institution as the case may be, and transferred to the Consolidated Fund.

$ 27, 18 of 2013 w.e.f.01.04.2013

CHAPTER XIV

DEDUCTION OF INCOME TAX FROM REMUNERATION OF EMPLOYEES BY EMPLOYERS

Employers to Deduct income tax.

114. (1) Every employer shall deduct income tax in accordance with the provisions of this Chapter from the remuneration of his employees for each pay period at the time of payment of such remuneration.

(2) Income tax deducted under subsection (1) from the remuneration of an employee and remitted to the Commissioner-General as provided in this Chapter, shall be deemed to have been paid by such employee to the Commissioner-General on the date on which such deduction was made.

For the purpose of this section, any person who receives remuneration in cash or kind from an employer is deemed to be an employee of such employer.

115. (1) Every employer who employs –

Employers to give notice to Commissioner - General.
$ 24, 8 of 2012 w.e.f.01.04.2012
[$ 29, 9 of 2015]

(*a*) any resident individual who –

(i) receives remuneration:

(A) for any year ending prior to April 1, 2015, in excess of fifty thousand rupees per month or six hundred thousand rupees per year: or

(B) for any year commencing from April 1, 2015, in excess of sixty two thousand and five hundred rupees per month or seven hundred and fifty thousand rupees per year;

(ii) is a director or non- executive director to whom any payment is made or is due by or from such employer or who receives any other benefit as an employee or in any other capacity; or

(*b*) any non-resident individual,

who has not given notice to the Commissioner-General under sub-section (1) of section 107C the Inland Revenue Act, No. 4 of 1963 or under section 99 of the Inland Revenue Act, No. 28 of 1979 or section 107 of the Inland Revenue Act, No. 38 of 2000 or under this Act, shall give notice to the Commissioner-General not later than July 1, 2006, that he has in his employment such individual (hereinafter in this Chapter referred to as a "specified employee").

(2) Where an employer commences to employ any specified employee or to pay remuneration to any specified employee, such employer shall within seven days of commencement of such employment, as the case may be, give notice to the Commissioner-General that he has in his employment such employee:

Provided that the preceding provisions of this subsection shall not apply to an employer who has given notice under subsection (1).

(3) Any notice given by an employer under subsection (1) or subsection (2) shall be in such form and contain such particulars as may be specified by the Commissioner-General.

(4) Notwithstanding that an employer has failed to give notice under subsection (1) or subsection (2), such employer shall deduct income tax from the remuneration of each of his specified employees in accordance with the provisions of this Chapter.

116. (1) The amount of income tax to be deducted by an employer for any year of assessment in terms of section 114, shall be in accordance with the income tax tables specified by the Commissioner-General and applicable to that year of assessment.

Application of income tax tables.

(2) Income tax shall be deducted in respect of a pay period in accordance with the income tax table applicable to regular profits from employment from the remuneration for such pay period of every employee in respect of regular profits from employment, and all such profits in respect of a pay period shall be aggregated and be deemed to be one payment for the purposes of the application of the income tax table.

Regular profits from employment in respect of any pay period shall include—

(a) wages, salary allowances or pension payable in respect of such pay period or such other profits from employment, which arise or accrue regularly and are payable in respect of such pay period;

(b) such profits from employment as are referred to in paragraph (*d*) of section 4 and such profits from employment, in the form of perquisites or benefits other than those referred to in subsections (3) and (4), as have arisen or accrued in respect of such pay period; and

(c) such profits from employment as are not included in paragraph (*a*) or paragraph (*b*) or in paragraph (*c*) of section 4, if the total of such profits for such pay period does not exceed five hundred rupees.

(3) Income tax shall be deducted in respect of such profits from employment as are referred to in paragraph (*c*) of subsection (1) of section 4, in accordance with the income tax table applicable to such profits.

(4) Income tax shall be deducted in respect of such profits from employment as are received by the employee by way of bonus, commission or any other benefits of a similar character, in accordance with the income tax table applicable to such profits.

(5) Where the income tax tables are altered, the income tax tables as altered shall be applied from the pay period following the date on which the altered income tax tables take effect.

(6) Where any profits from employment are not paid but are credited or applied to the account or benefit of an employee or to the account or benefit or any other person on behalf of an employee, such profits shall be deemed to be paid to such employee when they are so credited or applied.

(7) Where the remuneration of an employee is not paid monthly, the aggregate of the payments made in each calendar month shall be deemed to be a monthly payment, and such employee shall be deemed to be an employee to whom remuneration is paid monthly and the deduction of income tax appropriate to such monthly payment may be made from any one or more of the payments made during the month:

Provided that the Commissioner-General may, on application made by an employer or employee, specify some other method in which such deduction shall be made.

(8) For the purposes of this Chapter, the amount of any commission paid to any employee shall be deemed to be profits from employment arising on the date of such payment.

(9) Where the Commissioner-General is satisfied on application made by an employer to make payments for work done overtime by an employee during any pay period at the same time as the other regular remuneration for such pay period is paid, payments for such work done over time may, for the purpose of determining the amount of income tax deduction, be aggregated with the employee's regular remuneration for a succeeding pay period.

(10) If any remuneration is paid by the employer after the date of death of an employee in respect of his employment with such employer, the employer shall on making such payment, deduct income tax as if the deceased employee were still in his employment.

117. (1) Where an employer pays any remuneration or provides any benefit to any director, whether executive or non-executive, or to any Chairperson of the Board of Directors of any company or to any other person and where such director, chairperson or other person is not considered to be an employee and where such amounts are not taken into account in the application of the tax tables referred to in section 116, such employer shall deduct tax on such amounts or value of such benefits at the rate of —

Deduction of tax at special rates.

$ 30,22 of 2011 w.e.f.01.04.2011
$ 33, 6 of 2014 w.e.f.01.04.2014

(*a*) ten per centum, where the aggregate of such amounts or value of such benefits does not exceed twenty five thousand rupees per month; or

(*b*) sixteen *per centum*, where the aggregate of such amounts or value of such benefits exceeds twenty five thousand rupees per month,

in terms of the provisions of this Chapter

(2) No refund shall be made under this Act in relation to the income tax deducted in terms of subsection (1) notwithstanding anything

to the contrary in this Act, but such income tax may be set off against the income tax liability of such person in respect of the same year of assessment, if such amounts or the value of benefit has been included in his total statutory income for that year.

(3) Where any employer who is required to deduct tax on any remuneration using tax tables as referred to in section 116 omits to do so, and deducts tax at the rate of ten per centum on such remuneration, such employer shall be liable to pay such tax in default calculated on the basis of the difference between tax payable under the tax tables as provided for in section 116 and tax deducted by the employer under this section, and be liable to a penalty not exceeding ten per centum of such tax in default, calculated as follows:–

(*a*) where the tax payable on a return submitted under subsection (1) of section 106 has not been paid fully or partly on or before the due date, at the rate of five per centum for the first month of such default and a further one per centum for each month or part of a month thereafter, on such amount of tax in default;

(*b*) where an assessment has been issued in the absence of a return due from such person and the relevant tax is in default, at the rate of ten per centum on such amount of tax in default;

(*c*) where an assessment was under appeal and the tax became payable on the settlement of such appeal, at the rate of ten per centum on such amount of tax that became payable,

and the Commissioner-General may recover such tax from such employer as tax in default under this Act.

117A. (1) Where an employer pays any remuneration or provides any benefit to any employee who is also an employee of another employer and such other employer deducts income tax on the remuneration under section 114 as such employee's main employer, then such first mentioned employer shall deduct tax at the rate of —

Deduction of tax at special rates where an individual has more than one employment.
$ 31,22 of 2011 w.e.f.01.04.2011

(*a*) ten *per centum*-

$ 34(1) 8 of 2014

(i) where the aggregate of such payments or value of such benefits does not exceed twenty five thousand rupees per month; or

(ii) where the aggregate of such payments or value of such benefits does not exceed fifty thousand rupees per month, if such employee is an individual employed in the public sector; or

(b) sixteen *per centum*-

(i) where the aggregate of such payments or value of such benefits exceeds twenty five thousand rupees per month; or

(ii) where the aggregate of such payments or value of such benefits exceeds fifty thousand rupees per month, if such employee is an individual employed in the public sector;

on such payments or the value of such benefits in terms of the provisions of this Chapter. No direction shall be issued or entertained under section 118 in relation to such payments or value of such benefits,

(2) No refund shall be made under this Act in relation to the income tax deducted in terms of subsection (1) notwithstanding anything to the contrary in this Act, but such income tax may be set off against the income tax liability of such person in respect of the same year of assessment, if such payments or the value of such benefits has been included in his total statutory income for that year.

(3) Where any employer who is required to deduct tax on any remuneration using tax tables as referred to in section 116 omits to do so, and deducts tax at the rate of ten *per centum* on such remuneration, such employer shall be liable to pay such tax in default calculated on the basis of the difference between tax payable on this basis of tax tables as provided for in section 116 and tax deducted by the employer under this section.

$ 34(2) 8 of 2014 w.e.f.1.4.2014

(4) Where an individual is employed under more than one employer or has more than one employment and receiving any benefit from the private use of a motor vehicle or any allowance paid in lieu of the provision of such vehicle or value of any transport facility from more than one employer or from more than one employment, the excess of aggregate of such benefit or allowance or such value over fifty thousand rupees shall form part of such employee's employment income liable to tax.

118. Directions to employers.

$ 32,22 of 2011

(1) Any employee from whose remuneration income tax is deducted by his employer in accordance with the provisions of this Chapter may, if such remuneration, in full or part, is exempted from income tax for any year of assessment under any provisions of this Act, make an application to the Commissioner-General in such form and containing such particulars as may be specified by the Commissioner-General, that the direction be issued to his employer to make the necessary adjustments in the deduction of income tax for that year of assessment.

(2) The Commissioner-General or any officer authorized by the Commissioner-General may, on an application made by an employee under subsection (1), issue to the employer of such

employee the necessary direction in writing (a copy of which shall be issued to the employee), and such employer shall deduct income tax from the remuneration of such employee in accordance with such direction:

Provided that any such direction issued may at any time be varied.

(3) The Commissioner-General or any officer authorized by the Commissioner-General may, in respect of any employee chargeable with income tax under this Act, issue to the person who is the employer of that employee, a direction in writing (a copy of which shall be issued to that employee) requiring such person to deduct in accordance with such direction, the income tax payable under this Act, from the remuneration of such employee, and such person shall deduct income tax from such remuneration in accordance with such direction:

Provided that any such direction may at any time be varied.

For the purpose of this Chapter, a person in respect of whom a direction has been issued under this section shall be deemed to be a "specified employee".

(4) Any employee who is dissatisfied with a direction issued under subsection (2) or under subsection (3) in respect of any year of assessment may, within a period of thirty days after the date of issue of such direction, appeal to the Commissioner-General in writing setting out precisely the grounds of such appeal. The decision of the Commissioner- General on any such appeal shall be final and conclusive:

Provided that the Commissioner-General shall, on a request made in writing by such employee, cause an assessment to be made under section 163 on such employee for that year of assessment for the purpose of enabling such employee to prefer an appeal under section 165 against such assessment.

119. Every employer who makes any payment of remuneration to any specified employee shall–

Employers to maintain proper records.

(*a*) keep a proper record of payment of such remuneration in such pay sheet and in such manner as may be specified by the Commissioner-General;

(*b*) take all reasonable precautions for the safe custody of all employees' declarations, pay sheets, receipts for payment of remuneration to employees and all other accounting records pertaining to the remuneration of the employees and to the income tax deducted and paid to the Commissioner-General, and shall retain all such records for a period of not less than five years after the end of the year of assessment to which such records relate; and

(*c*) permit any officer authorized in writing by the Commissioner-General to inspect any record maintained by him and referred to in paragraph (*a*) or (*b*).

120. Every employer who is required to make income tax deductions from the remuneration paid to his employees under the provisions of this Chapter, shall– Duties of employer following deduction of income tax.

(*a*) not later than the fifteenth day of the month following the month in which he made any such deductions, pay to the Commissioner-General the amount of such deductions and at the same time furnish to the Commissioner-General, a monthly declaration in such form and in such manner as may be specified by the Commissioner-General;

(*b*) not later than the thirtieth day of April in such year, give to each employee from whose remuneration income tax has been deducted under the provisions of this Chapter, a certificate in such form and containing such particulars as may be specified by the Commissioner-General, in respect of the deductions so made in the preceding year of assessment;

(*c*) within thirty days after the cessation of employment of any employee, give to such employee a certificate, in such form as may be specified by the Commissioner-General, specifying the amount of income tax deducted in respect of the period commencing from the first day of the year of assessment during which the cessation of employment took place, and ending on the date of such cessation;

(*d*) not later than the thirtieth day of April in each year, furnish to the Commissioner-General in respect of the preceding year of assessment, an annual declaration in such form and containing such particulars as may be specified by the Commissioner-General, together with an income tax deduction card in such form as may be specified by the Commissioner-General in respect of each employee from whose remuneration income tax is deducted under the provisions of this Chapter during the year of assessment to which the annual declaration relates; and

(*e*) not later than the last day of the month following the month in any year of assessment in which the employer ceased to carry on or exercise any trade business, profession or vocation, comply with the provisions of paragraph (*d*) in respect of the trade, business, profession or vacation which he ceases to carry on or exercise, as if the period from the first day of that year of assessment to the date of such cessation, were preceding year of assessment referred to in that paragraph.

121. (1) Where an employer fails to deduct the amount of income tax required to be deducted under the provisions of this Chapter, or part thereof, from the remuneration paid to any employee, such employer shall on becoming cognizant of such failure, furnish to the Commissioner-General a declaration in the form specified under section 120, and remit such amount of income tax as was not deducted to the Commissioner-General together with such amounts as may be due under section 127.

Adjustments of amount of income tax not paid or paid in excess.

(2) Where during any year of assessment an employer has remitted to the Commissioner-General in respect of any pay period, any sum in excess of the amount deducted, the employer may deduct such excess payment from the remittance in respect of any subsequent pay period in that year of assessment, and notify the Commissioner-General accordingly.

(3) Where during any year of assessment an employer has deducted income tax from the remuneration of any employee for any pay period any sum in excess of the amount deductible in respect of such remuneration for such pay period, such employer may reduce such excess from the amount of income tax deductible in respect of the remuneration of such employee for any pay period in such year of assessment or in the immediately succeeding year of assessment and notify the Commissioner-General accordingly within two weeks from the date of such adjustment.

$ 28, 18 of 2013 w.e.f.01.04.2013

122. (1) Where for any reason a deduction of income tax is not made in full at the time of making payment of remuneration to an employee, such employee shall, if such remuneration is liable to income tax, give notice in writing to the Commissioner-General within fifteen days of receipt of such remuneration, that he has received such remuneration without such deduction having been made.

Employee to give notice when necessary deductions are not made.

(2) A notice under subsection (1) shall contain the full name and address of the person giving such notice, the full name and address of his employer, and full particulars relating to his remuneration.

123. Notwithstanding anything in any other law, the amount of every tax deduction made under the provisions of this Chapter and held by the employer for remittance to the Commissioner-General, shall not be such property of such employer as is liable to execution or administration in the event of the bankruptcy, liquidation, dissolution or death of such employer or to assignment for the benefit of creditors, and such amount shall remain apart from and form no part of the estate in bankruptcy, liquidation, assignment of such employer or the estate of the deceased employer.

Income tax deducted not to form part of assets of employers.

124. (1) Where any employer fails to deduct income tax in accordance with the provisions of this Chapter from the remuneration of any employee, or where any employer deducted income tax for any pay period from the remuneration of an employee and has not remitted the full amount of such deduction to the Commissioner-General on or before the fifteenth day of the following month, such employer shall be personally liable for the entire amount of the tax he was required to deduct under the provisions of this Chapter but has not so deducted, or as the case may be, for the entire amount or part of the amount of the tax deducted which was not remitted to the Commissioner-General, and such amount not deducted or deducted and not remitted shall be deemed to be in default from the day following the day or on before which such amount should have been remitted to the Commissioner-General, and such employer shall be deemed to be a defaulter and such amount may be recovered from such employer in the manner provided in this Act.

Default in the deduction or payment of income tax.

(2) Notwithstanding the provisions of subsection (1), the Commissioner-General may recover from the employee the amount of the income tax or any part thereof which the employer had failed to deduct from the remuneration of the employee.

(3) Nothing in this section shall be read and construed as preventing the Commissioner-General from taking such steps as he thinks fit to recover the amount of income tax referred to in subsection (2), wholly from the employer or wholly from the employee or partly from the employer and partly from the employee.

125. (1) Where an employer who is required under the provisions of this Chapter to deduct income tax from the remuneration paid to his employees–

Issue of assessments on employers.

(*a*) fails to deduct the whole or any part of the income tax for any pay period;

(*b*) fails remit to the Commissioner-General the whole or any part of the income tax deducted for any pay period; or

(*c*) fails to furnish any monthly or annual declaration under section 120,

an Assessor or Assistant Commissioner may at any time during the year of assessment within which that pay period falls or within three years from the end of that year of assessment, assess the amount if income tax or the additional amount of income tax which such employer in the opinion of the Assessor or Assistant Commissioner should have deducted and paid to the Commissioner-General for such pay period, and shall, by notice in writing require such employer to pay such amount forthwith together with such amount as may be due under section 127.

(2) Where it appears to an Assessor or Assistant Commissioner that for any pay period in any year of assessment an employer has been assessed under subsection (1) at less than the proper amount of income tax which he should have deducted and paid to the Commissioner – General, the Assessor or Assistant Commissioner may at any time during that year of assessment or within three years from the end of that year of assessment, assess such employer at the additional amount of income tax at which such employer in the opinion of the Assessor or Assistant Commissioner should have been assessed and shall, by notice in writing, require such employer to pay such amount forthwith together with such amount as may be due under section 127:

Provided that where in the opinion of the Assessor or Assistant Commissioner any fraud, evasion or willful default has been committed by or on behalf of any employer in relation to any income tax deductible by such employer in any year of assessment, it shall be lawful for the Assessor or Assistant Commissioner to make an assessment or an additional assessment on such employer, at any time after the end of that year of assessment.

126. Appeals.

(1) Any employer aggrieved by the amount of any assessment made under the provisions of this Chapter, may appeal in writing against such assessment to the Commissioner-General within a period of thirty days after the date of the notice of such assessment:

Provided that the Commissioner-General upon being satisfied that owing to the absence from Sri Lanka, sickness or other reasonable cause, the appellant was prevented from appealing within such period, shall grant an extension of time for preferring the appeal.

(2) Where the assessment appealed against under subsection (1) has been made in the absence of a monthly declaration, or an annual declaration, as the case may be, required to be furnished under section 120, the petition of appeal shall be preferred together with such declaration.

(3) Every employer preferring an appeal under subsection (1) against the amount of an assessment for any pay period falling within any year of assessment shall, (unless such employer has already done so,) remit to the Commissioner- General the whole or any part of the income tax which such employer was required, under the provisions of this Chapter to deduct from the remuneration paid to his employees in respect of such pay period, and to remit to the Commissioner- General but which has not been remitted, together with any penalty, under section 127 which accrued thereon upto the date of the notice of such assessment, and shall attach to the petition of appeal a receipt in proof of such remittance.

(4) A petition of appeal which does not conform to the provisions of subsections (2) and (3) shall not be valid.

(5) The amount of income tax charged by an assessment made under section 125 shall be paid by the employer notwithstanding that an appeal against such assessment has been preferred under subsection (1).

(6) The provisions of subsection (7) of section 165 to section 170 shall *mutatis mutandis*, apply to any appeal preferred under subsection (1).

(7) Where no valid appeal has been preferred within the period specified in subsection (1) against an assessment made in accordance with the provisions of this Chapter, or where agreement is reached under subsection (7) of section 165 as regards an assessment, or where an assessment had been determined on appeal the assessment as made or agreed or determined on appeal, as the case may be, shall be final and conclusive for all purposes of this Act:

Provided that nothing in this subsection shall be read and construed as preventing an Assessor or Assistant Commissioner from making, subject to the provisions of section 125, an assessment or additional assessment, for any pay period in any year of assessment which does not involve re-opening any matter which has been determined on appeal.

Penalty for default.

127. Where any income tax for any pay period payable by any employer under the provisions of this Chapter is in default, such employer shall pay in addition to such tax–

(*a*) a penalty of a sum equivalent to ten per centum of such tax; and

(*b*) where such tax is not paid before the expiry of thirty days after it has begun to be in default, a further penalty of a sum equivalent to two *per centum* of the tax in default in respect of each further period of thirty days or part thereof, during which it remains in default:

Provided that—

(i) the Commissioner-General may waive or reduce the amount of any such penalty payable by any employer, if such employer proves to the satisfaction of the Commissioner-General that the failure to pay was due to circumstances beyond his control and that he has paid the amount of the tax in default and has furnished the declaration required to be furnished at the time of such payment;

(ii) the total amount payable as penalty under the preceding provisions of this section, shall in respect of the tax in default for any pay period, not exceed fifty *per centum* of the tax in default.

128. Penalty on default.

Notwithstanding the provisions of section 127, where any income tax payable by any employer under the provisions of this Chapter is in default in respect of any period, such employer shall pay in addition to such tax a penalty, not exceeding ten *per centum* of such tax in default calculated as follows:—

(*a*) where the tax payable on a return submitted under subsection (1) of section 106 has not been paid fully or partly on or before the due date, at the rate of five *per centum* for the first month of such default and a further one *per centum* for each month or part of a month thereafter, on such amount of tax in default;

(*b*) where an assessment has been issued in the absence of a return due from such person and the relevant tax is in default, at the rate of ten *per centum* on such amount of tax in default;

(*c*) where an assessment was under appeal and the tax became payable on the settlement of such appeal, at the rate of ten *per centum* on such amount of tax that became payable.

129. Credit for tax paid.

Where the assessable income of an employee for any year of assessment includes any remuneration in respect of which income tax has been deducted in accordance with the provisions of this Chapter, such employee shall be entitled on production of a certificate of deduction of tax relating to such remuneration issued in accordance with the provisions of paragraph (*b*) or paragraph (*c*) of section 120 to a set-off against the tax payable by him for that year of assessment, of the amount of tax shown in such certificate to have been deducted:

Provided however, for any year of assessment such employee shall be entitled to set-off the tax deducted under this Chapter on the basis of a tax deduction certificate, if the income from which such income tax has been deducted forms part of his total statutory income for that year of assessment.

130. Compliance with the provisions of this Chapter relating to forms.

Where under the provisions of this Chapter an employer is required to record or furnish particulars in such form and in such manner as may be specified by the Commissioner-General, it shall be sufficient compliance with those provisions if the particulars are recorded or furnished by the employer in such form and in such manner as may be approved in writing by the Commissioner-General, upon an application in that behalf made by the employer.

131. In this Chapter unless the context otherwise requires— Interpretation.

"employee" includes–

(*a*) any director of a company or corporation;

(*b*) any working partner of a partnership;

(c) any person receiving remuneration for past services performed by him or performed by any other person;

"employer" means any person, partnership, body of persons or any organization - *$ 37, 9 of 2008 w.e.f.01.04.2008 $ 33,22 of 2011*

(*a*) for whom an individual performs services as an employee;

(*b*) paying any profits from employment within the meaning of section 4; or

(*c*) paying any pension or other remuneration to a former employee or to any other person, for the past services of such employee,

and includes in the case of a body, institution or a person specified in Column I hereunder, the person specified in the corresponding entry in Column II–

Column I	Column II
A company or a body of persons whether corporate or unincorporated	Director, secretary, manager or other principal officer of such company or body of persons.
A Partnership	The precedent partner or any active partner resident in Sri Lanka, and in the case of a partnership of which no active partner is resident in Sri Lanka, the agent of such partnership in Sri Lanka
The Estate of a deceased person	The executor or administrator of the estate.
A trust	The trustee or trustees of the trust.
A non-resident person	The agent or attorney of such person in Sri Lanka;

"pay period" means a month, week or such other period in respect of which remuneration is calculated and paid by an employer to an employee;

"principal officer" in relation to any company or body of persons means, any person to whom a notice has been given under any provision of this Chapter or of Chapter XXVI on behalf of that company or a body of persons, unless he proves that he has no connection with that company or body of person or that some other person, resident in Sri Lanka is the principal officer thereof; and

"remuneration" means profits from employment within the meaning of section 4.

CHAPTER XV

PROVISIONS RELATING TO THE PAYMENT OF INCOME TAX BY A GOVERNMENT INSTITUTION AND DEDUCTION FROM TAX ON OFFICIAL EMOULMENTS OF ANY EMPLOYEE OF ANY GOVERNMENT INSTITUTION.

$ 38, 9 of 2008 w.e.f.01.04.2008

132. (1) Notwithstanding anything contained in section 2 and in Chapters XIII and XIV of this Act, the income tax attributable to one half of official emoluments of any employee of a Government Institution for any year of assessment ending on or before March 31, 2008, shall be paid by such Institution if such part of official emolument of such employee for that year of assessment exceeds an amount equal to the allowance referred to in paragraph (*a*) of subsection (1) of section 33:

Payment of income tax by a Government institution of its employees.

$ 39, 9 of 2008

Provided that such income tax so paid shall neither be refunded to such employee either in whole or in part or deducted from income tax otherwise payable by such employee, for that year of assessment.

$ 39, 9 of 2008 w.e.f.01.04.2008

(2) Notwithstanding anything contained in section 4 of this Act, the income tax referred to in subsection (1), in respect of one half of official emolument of any employee of a Government Institution shall be deemed not to form part of the profits from employment of such employee.

$ 39, 9 of 2008 w.e.f.01.04.2008

(3) For the purposes of sub section (1), "the income tax attributable to one half of the official emolument of any employee of a Government Institution" means the income tax computed at the rates specified in Part I of the First Schedule to this Act on the one half of emoluments of such employee, after deducting therefrom a sum equal to the allowance referred to in paragraph (*a*) of sub section (1) of section 33.

(4) For the purpose of this Chapter —

"official emoluments" means profits from employment as specified in paragraph (*a*) of sub section (1) of section 4 received for services rendered, excluding pension.

132A (1) There shall be deducted from the income tax payable for any year of assessment commencing on or after April 1, 2008, but prior to April 1, 2011, by any employee of any Government Institution, whose assessable income for that year of assessment includes any official emoluments, such amount as referred to in subsection (2).

Deduction from income tax on the official emoluments of any employee of any Government Institution.
$ 34,22 of 2011

(2) The deduction shall be an amount which bear to the income tax

$ 40, 9 of 2008 w.e.f.01.04.2008

charged on such employee as referred to in subsection (1) for such year of assessment, the same proportion which the official emoluments (other than any pension, bonus, incentive payments, reward, share of fines or other similar payment) of such employee for that year of assessment, bear to the total statutory income of that employee for that year of assessment.

For the purpose of subsections (1) and (2) of this section, "official emoluments" means profits from employment as specified in paragraph (a) of subsection (1) of section 4, received for services rendered.

(3) For the purpose of this Chapter, "Government Institution" means any institution or person which employs individuals holding any office referred to in paragraph (b) of subsection (1) of section 8.

CHAPTER XVI

DEDUCTIONS FROM INTEREST PAID BY BANKS AND FINANCIAL INSTITUTIONS

133. (1) Where any bank or financial institution pays any interest on any sum of money deposited with it, such bank or financial institution shall, subject to the provisions of subsection (2), deduct income tax in accordance with the provisions of this section from the interest payable and such deduction shall be made at the appropriate rate specified in subsection (4) and at the time such interest is paid.

Banks and financial institutions to deduct income tax.
$ 30, 10 of 2007 w.e.f.30.03.2007

(2) Where any sum of money (in this subsection referred to as the "first mentioned sum") is paid to any bank or financial institution in return for any pledge in writing that such bank or financial institution shall pay to the bearer of the pledge not identified by name in such pledge, a sum of money which is in excess of the first mentioned sum (in this subsection referred to as the "stated sum") at the time such pledge is presented for redemption or after such date as is stated in such pledge, such bank or financial institution shall deduct income tax on the excess of the stated sum over the first mentioned sum. The deduction shall be made at the rate of ten *per centum* of such excess and at the time the first mentioned sum is paid to such bank or financial institution.

(3) The deduction referred to in subsection (1) from any interest referred to therein shall not apply to any interest :—

(*a*) of which the recipient is :—

(i) any foreign government;

(ii) the Consolidated Fund of the Government of Sri Lanka;

$ 41, 9 of 2008 w.e.f.01.04.2008

(iii) any Provincial Fund of any Provincial Council;

(iv) any registered society referred to in paragraph (h) of section 7, being interest paid to such society during the period referred to in that paragraph; or *$ 41, 9 of 2008 w.e.f.01.04.2008*

(v) the Api Wenuwen Api Fund established by the Api Wenuwen Api Fund Act, No. 6 of 2008; *$ 41, 9 of 2008 w.e.f.01.04.2008*

(*b*) which is exempt from income tax under this Act; *$ 35, 8 of 2014 w.e.f.01.04.2014*

(*c*) from which income tax is deductible under section 37 or section 95; or *$ 41, 9 of 2008 w.e.f.01.04.2008*

(*d*) which is paid on the deposits made by any participating institution under the standing deposit facility with the Central Bank of Sri Lanka. *$ 35, 8 of 2014 w.e.f.01.04.2014*

(4) Where the recipient of the interest from which income tax is deductible under subsection (1) of this section is :— *$ 41, 9 of 2008 w.e.f.01.04.2008*

(a)

(i) any company other than any charitable institution, the deduction shall be made at the rate of ten *per centum* of such interest; *$ 30, 10 of 2007 $ 35,22 of 2011 w.e.f.01.04.2011*

(ii) for any year of assessment ending prior to April 1, 2015, any partnership or body of persons other than any charitable institution, the deduction shall be made at the rate of eight *per centum* of such interest; *[$ 30(1), 9 of 2015]*

(iii) for any year of assessment commencing on or after April 1, 2015 any partnership, charitable institution or any individual the deduction shall be made at the rate of two and a half *per centum* of such interest; and *[$ 30(1), 9 of 2015]*

(iv) for any year of assessment commencing on or after April 1, 2015, body of persons the deduction shall be made at the rate of eight *per centum* of such interest. *[$ 30(1), 9 of 2015]*

(b) any charitable institution which tenders to the branch of such bank or financial institution with which the deposit is made, a declaration in writing in relation to any year of assessment ending prior to April 1, 2015, that its assessable income, *[$ 30(2), 9 of 2015]*

(i) does not exceed 500,000 rupees, no deduction shall be made from such interest payable to such charitable institution for that year of assessment; or *$ 35,22 of 2011 w.e.f.01.04.2011*

(ii) exceeds 500,000 rupees, deduction shall be made from the interest payable to charitable institutions at the rate of eight *per centum* of such interest for that year of assessment; *$ 35,22 of 2011 w.e.f.01.04.2011*

(c) any individual then, in relation to any year of assessment ending prior to April 1, 2015 where such individual tenders to the branch of the bank or of the financial institution with which the deposit is made, a declaration in writing that for that year of assessment his assessable income :— *[$ 30(3), 9 of 2015]*

(i) does not exceed 500,000 rupees, no deduction shall be made from such interest payable for that year of assessment; *$ 35,22 of 2011 w.e.f.01.04.2011*

(ii) exceeds 500,000 rupees but does not exceed 1,500,000 rupees, deduction shall be made from such interest payable for that year of assessment, at the rate of two and a half *per centum* of such interest; and *$ 18, 9 of 2009 [$ 35,22 of 2011 w.e.f.01.04.2011]*

(iii) exceeds 1,500,000 rupees, deduction shall be made from such interest payable for that year of assessment on every sum of money deposited, at the rate of eight per centum of such interest; *$ 18, 9 of 2009 [$ 35,22 of 2011 w.e.f.01.04.2011]*

(*d*) any charitable institution which has not tendered the declaration referred to in paragraph (*b*) or any individual referred to in paragraph (*c*) who has not tendered the declaration referred to in that paragraph, as the case may be, deduction shall be made for any year of assessment ending prior to April 1, 2015 at the rate of eight *per centum* of such interest: *[$ 35,22 of 2011 w.e.f.01.04.2011]* *[$ 30(4), 9 of 2015]*

Provided that where such charitable institution or such individual maintains:—

(*a*) one savings account, no deduction shall be made from interest paid for any month; or

(*b*) more than one savings account, no deduction shall be made from interest paid for any month in respect of only one such account,

where the interest paid is less than five thousand rupees.

For the purpose of this proviso, "savings account" means an account, whether or not subject to any condition affecting the right to withdraw money there from and which bears interest at a rate not dependent on the period for which the deposit is maintained.

(5) Where any interest referred to in subsection (1) or any excess referred to in subsection (2) payable to any person or partnership is credited to any account maintained by any bank or financial institution for or on behalf of such person or partnership, such interest shall be deemed to have been paid to such person or partnership, at the time such interest is so credited.

$ 41, 9 of 2008 w.e.f.01.04.2008

(6) The interest payable by any bank or financial institution on any sum of money deposited with it jointly by two or more individuals, shall be apportioned among such individuals in accordance with the mandate given to such bank or financial institution in relation to the apportionment among such individuals of such sum or the interest thereon, and such part of the interest as is apportioned to any such individual, shall be deemed to be the interest payable to such individual on such part of such sum as is apportioned to him.

$ 30, 10 of 2007 w.e.f.30.03.2007

(7) Every bank or financial institution which deducts income tax from the interest paid in accordance with subsection (1) or on the excess in accordance with subsection (2) to any person or partnership, as the case may be, shall issue to such person or partnership a statement setting out the following particulars:—

$ 41, 9 of 2008 w.e.f.01.04.2008

(*a*) the gross amount of the interest or excess paid;

$ 41, 9 of 2008 w.e.f.01.04.2008

(*b*) the rate of tax and the amount of tax deducted;

$ 30, 10 of 2007 w.e.f.30.03.2007

(*c*) the net amount of interest or excess actually paid; and

$ 41, 9 of 2008 w.e.f.01.04.2008

(*d*) the period to which such interest or excess relates.

$ 41, 9 of 2008 w.e.f.01.04.2008

(8) (*a*) Where income tax is deductible by any bank or financial institution in accordance with this section, from the interest payable or excess to any individual or charitable institution, such individual or charitable institution may, if the amount of income tax payable by him or it for any year of assessment, had the interest or excess from which tax is deductible under this section been included in the assessable income of such individual or such charitable institution, as the case may be, for that year of assessment, is less than the income tax deductible for that year of assessment under this section, make an application to the Commissioner-General in such form and containing such particulars as may be specified by the Commissioner- General, requesting that a direction be issued to that bank or financial institution to make the necessary adjustments in the deduction of income tax for that year of assessment.

$ 30, 10 of 2007 w.e.f.30.03.2007

$ 41, 9 of 2008 w.e.f.01.04.2008

(*b*) The Commissioner-General or any other officer authorized

by the Commissioner- General may, on an application made by any individual or charitable institution under paragraph (*a*), issue to the bank or financial institution specified in such application, the necessary direction in writing (a copy of which shall be issued to the applicant) and such bank or financial institution shall comply with such direction :

Provided that any such direction issued, may be varied at any time.

(*c*) Any individual or charitable institution who or which is not satisfied with a direction issued under paragraph (*b*) in respect of any year of assessment may, within thirty days of the issue of such direction, appeal to the Commissioner-General in writing setting out precisely the grounds of such appeal. The decision of the Commissioner-General on any appeal made to him under this paragraph, shall be final and conclusive:

Provided that the Commissioner-General shall on request made in writing by such individual or charitable institution, cause an assessment to be made under section 163 on such individual or charitable institution for that year of assessment, for the purpose of enabling such individual or charitable institution to prefer an appeal under section 165 against such assessment.

(*d*) Every bank and financial institution shall:—

(i) keep a proper record of the interest or excess paid by it in any year of assessment to any person or partnership and the date or dates on which such interest or excess is paid, in such manner as may be specified by the Commissioner-General ; and *$ 41, 9 of 2008 w.e.f.01.04.2008*

(ii) permit any officer authorized in writing by the Commissioner- General, to inspect any record maintained by it under sub- paragraph (i) . *$ 30, 10 of 2007 w.e.f.30.03.2007*

134. (1) Where any bank or financial institution issues any— Deducting tax from interest on securities, treasury bonds etc,. *$ 31, 10 of 2007 w.e.f.30.03.2007*

(a) Security or Treasury Bond under the Registered Stocks and Securities Ordinance (Chapter 420);

(b) Treasury Bill, under the Local Treasury Bills Ordinance; (Chapter 417); or

(*c*) Central Bank Security, under the Monetary Law Act (Chapter 422),

at a price less than the face value, such bank or financial institution shall deduct from the excess of the face value over such price, income tax at the rate of ten *per centum* of such

excess. Such deduction shall be made at the time of the issue of such Security, Treasury Bond, Treasury Bill or Central Bank Security, as the case may be.

(5) The excess referred to in subsection (1) shall be deemed to be interest accruing from such Security, Treasury Bond, Treasury Bill or Central Bank Security, as the case may be.

$ 31, 10 of 2007 w.e.f.30.03.2007

(3) The deduction referred to in subsection (1) shall not apply to any interest which is exempt from income tax under this Act.

$ 36, 8 of 2014 w.e.f.1.4.2014

135. (1) Every company which issues any corporate debt security shall, subject to the other provisions of this Act, deduct from the interest payable or creditable or the discount allowable by it, in respect of such security, income tax at the rate of ten *per centum* on the amount of such interest or discount; such deduction shall be made at the time of the issue of such corporate debt security:

Companies issuing corporate debt securities to deduct income tax.
$ 36,22 of 2011

Provided that-

(*a*) where such corporate debt security is issued with floating rate of interest payable for reviewing periods, such deduction shall be made at the time of beginning of each such reviewing period of interest rate;

$ 28, 18 of 2013 w.e.f.01.04.2013

(*b*) where any corporate debt security issued prior to April 1, 2011 and to which interest is payable on or after April 1, 2011 and in respect of which no deduction of income tax on interest has been made, such deduction shall be made at the time such interest is paid or credited;

(*c*) no deduction of income tax under this section shall be made from any interest or discount referred to in paragraph (aa) or paragraph (*o*) of section 9.

$ 37, 8 of 2014 w.e.f.01.04.2014

For the purposes of this subsection the expression "corporate debt security" means, any interest bearing or discounted security issued by or on behalf of any company, and includes any bond, note, paper or mortgage which obligates such company to pay the holder of such bond, note or paper or the mortgagee, a specified sum of money on demand or upon such security reaching maturity or thereafter, but does not include any loan, advance, overdraft or other similar facility obtained from a bank or any financial institution.

136. Where the assessable income of a person for any year of assessment includes a payment of interest referred to in section 133 –

Credit for tax deducted.

(*a*) if the income tax payable by him for that year of assessment exceeds the total of the deductions made under section 133, he shall be entitled on production of a statement relating to such payment made in accordance with that section, to

deduct from the income tax payable by him for that year of assessment, the amount of tax set out in such statement;

(*b*) if the income tax payable by him for that year of assessment is less than the total of the deductions made under section 133 he shall be entitled, on production of a statement relating to such payment made in accordance with that section and subject to the provisions of Chapter XXVIII, to a refund of the amount of the difference between the income tax payable by him for that year of assessment and the amount set out in such statement:

Provided however, where the total income on which tax has been deducted under section 133 accrues over more than one year of assessment and has not been included in full in computing the assessable income of such person for any year of assessment, then such deduction shall be restricted to the proportionate amount of tax so deducted, which is attributable to the income included in the assessable income of such person in that year or any subsequent year of assessment:

Provided further, that where such deduction is in respect of any corporate debt security issued with a discount without any right to receive any interest or other benefit subsequent to the original issue, such person shall not be entitled to any refund under section 200 in respect of the amount of any such deduction which may not be set off due to the provisions of the first proviso to this paragraph.

A notional tax credit on secondary market transactions

$ 33, 10 of 2007 w.e.f.30.03.2007

137. (1) Where any person is engaged in any secondary market transaction involving any security or treasury bond issued under the Registered Stock and Securities Ordinance (Chapter 420), or Treasury Bill issued under the Local Treasury Bills Ordinance (Chapter 417), or Central Bank Security issued under the Monetary Law Act (Chapter 422) referred to in section 134, on which the income tax has been deducted during any year of assessment at the rate of ten *per centum* at the time of issue of such Security, Bond or Bill, such person is entitled to a notional tax credit at ten *per centum* of the grossed up amount of interest income from such secondary market transaction, to an amount of one ninth of the same, if such interest income forms part of the statutory income of such person being a company or the assessable income of such person being a person other than a company, for that year of assessment.

For the purposes of this section "interest income from secondary market transaction" means interest income accrued or received on a outright or reverse purchase transaction on such Security, Bond or Bill, from a date on or after the date of primary issue of such Security, Bond or Bill, less interest expenses on repurchase transaction with Securities, Treasury Bonds or Treasury Bills from which such interest income was earned,

which has been certified by an approved accountant referred to in section 107, of this Act.

$ 33, 10 of 2007 w.e.f.30.03.2007

(2) Where any person is engaged in any primary market transaction or any secondary market transaction involving any corporate debt security issued by or on behalf of any company, on which income tax has been deducted under section 135 during any year of assessment at the rate of ten per centum at the time the interest is paid or credited or the discount is allowed on such security, such person shall be entitled to a notional tax credit at ten per centum of the grossed up amount of interest income from such transaction, to an amount of one ninth of the same, if such interest income forms part of the statutory income of such person being a company or the assessable income of such person being a person other than a company, for that year of assessment.

$ 38, 8 of 2014 w.e.f.01.04.2014

(3) For the avoidance of doubt, interest income referred to in subsection (1) in relation to any bank or financial institution means the profits and income earned or accrued from any Security, Bond or Bill.

[$ 31, 9 of 2015]

(4) Any balance amount of notional tax credit entitled to be claimed by any business of insurance prior to segregation, or any bank, financial institution or leasing company which is acquired, merged or amalgamated, as the case may be, shall notwithstanding any other provisions of this Act , be deemed to be an allowable deduction subject to the conditions, if it would have been claimable if not for such segregation (being a business of an insurance), or acquisition, merger or amalgamation of such bank, financial institution or leasing company.

Refund of income tax paid on interest liable to withholding tax.

138. (1) Where any person has proved to the satisfaction of the Commissioner-General that such person has already paid income tax on any interest subject to income tax at ten per centum under section 133 of this Act, and any claim is made in writing within twelve months from the date of payment of such tax, such person shall be entitled to a refund of such income tax paid by him on such interest income, other than any tax deducted under section 133 on such interest income.

$ 34, 10 of 2007 w.e.f.30.03.2007

(2) Where any person other than an individual which has included any interest income referred to in section 134 of this Act in its total statutory income, has by virtue of the notional credit referred to in section 137 paid any income tax in excess of its income tax liability for that year of assessment then such excess may be carried forward to be setoff against the income tax liability in any future year of assessment, but such person shall not be entitled to a refund of such excess or any part thereof.

(3) Any interest accrued to any person not being a company or any other person or partnership receiving such interest as business

income for any year of assessment, shall not be included in the total statutory income for such year of assessment, if such person proves to the satisfaction of the Assessor or Assistant Commissioner that the total amount of such interest will be liable to the deduction of income tax under section 133, when such interest is paid or credited.

139. (1) For any year of assessment:

Issue of directions where deductions are made under **sections 133 or 135.**

$ 35, 10 of 2007 w.e.f.30.03.2007

[$ 32, 9 of 2015]

(a) ending prior to April 1, 2015, any person or partnership from whose interest income the income tax is deductible by a bank or financial institution, or a company which issues any corporate debt security in accordance with the provisions of section 133 or section 135 and such interest income will form part of the assessable income of such person or divisible profit or income of the partnership, as the case may be, for any year of assessment, may, if the amount of income tax payable by him or the relevant partners for such year of assessment is less than the income tax deductible during that year of assessment under section 133 or section 135, make an application to the Commissioner-General in such form and containing such particulars as may be specified by the Commissioner General, requesting that a direction be issued to that bank or financial institution or any company which issues corporate debt security, to make the necessary adjustments in the deduction of income tax in that year of assessment; and

(b) commencing on or after April 1, 2015 any person (other than an individual or a partnership) from whose interest income the income tax is deductible by a bank or financial institution in accordance with the provisions of section 133 and such interest income will form part of the assessable income of such person for any year of assessment, may, if the amount of income tax payable by such person for such year of assessment is less than the income tax deductible during that year of assessment under section 133, make an application to the Commissioner-General in such form and containing such particulars as may be specified by the Commissioner General, requesting that a direction be issued to that bank or financial institution to make the necessary adjustments in the deduction of income tax in that year of assessment.

(2) The Commissioner General or any other officer authorized by the Commissioner General may, on an application made by any person or partnership under subsection (1), issue to the bank,

financial institution or company, as the case may be, specified in such application, the necessary directions in writing, a copy of which shall be issued to the applicant, and such bank, financial institution or company shall deduct income tax from the interest payable to such person or partnership, in accordance with such directions:

Provided that any such direction issued may at any time be varied.

(3) Any person or partnership, who or which is dissatisfied with a direction issued under this section in respect of any year of assessment may, within the period of thirty days after the date of the issue of such direction, appeal to the Commissioner-General in writing, setting out precisely the grounds on which such appeal is being made. The decision of the Commissioner General on any such appeal shall be final and conclusive:

Provided that the Commissioner General shall, on a request made in writing by such person or partnership, as the case may be, cause an assessment to be made under section 163 on such person or partnership for that year of assessment, for the purpose of enabling such person or partnership to prefer an appeal under section 165, against such assessment.

(4) Every bank, financial institution or company shall –

(*a*) keep a proper record of the interest pad to any person in any year of assessment and the date or dates on which such interest is paid, in such manner as may be specified by the Commissioner-General; and

(*b*) permit any officer authorised in writing by the Commissioner-General to inspect any record maintained by it as referred to in paragraph (*a*).

(5) The Commissioner-General shall not issue a direction as provided for in subsection (1) of this section, unless such excess deduction of the income tax arises as a result of losses incurred by such person or partnership which are deductible under section 32 and such amount of losses at the commencement of the relevant year of assessment exceeds the estimated total statutory income for that year, on the basis of the preceding year, excluding the relevant estimated interest income which is subject to the deduction of income tax under section 133 or section 135 or such interest income which is subject to the income tax deduction is exempt from income tax.

$ 35, 10 of 2007 w.e.f.30.03.2007

140. Every bank or financial institution or company issuing corporate debt security, which is required to deduct income tax from the interest paid or credited or discount allowed, as the case may be, by it in any year of assessment to any person chargeable with income

Duties of banks, financial institutions and companies following deductions of income tax.

tax under this Act, shall deduct such income tax at the time when such interest is paid or when such security is issued or where such corporate debt security is issued with floating rate of interest, at the beginning of each reviewing period, as the case may be, to such person in accordance with any agreement entered into between such bank or financial institution or company and such person with respect to such payment, and shall remit the amount so deducted to the Commissioner- General before the fifteenth day of the month following the month in which the deduction was made, and at the same time furnish to the Commissioner-General a declaration in such form and in such manner as may be specified by the Commissioner-General.

$ 30, 18 of 2013 w.e.f.01.04.2013

141. Where the Commissioner-General is of the view, that any bank or financial institution which pays interest or issues any debt security , or a company which issues corporate debt security, not deducting tax in accordance with the provisions of section 133 or section 135, as the case may be, he shall after affording such bank, financial institution or any such company, which pays interest or issues debt security or corporate debt security, as the case may be, an opportunity to show cause and where he is satisfied that there has been a contravention of the provisions of section 133 or section 135, impose on such bank or financial institution or the company, which pays interest or issues such debt security or corporate debt security, as the case may be, a penalty of a sum equivalent to five hundred per centum of the tax avoided by the contravention of the provisions of such section.

Penalty for tax avoidance.

$ 31, 18 of 2013 w.e.f.01.04.2013

142. **(**1) Where any bank or financial institution or company fails to deduct income tax from the interest paid by it in any year of assessment to a person chargeable with income tax under this Act in accordance with section 140, or where the bank or financial institution or company fails to remit to the Commissioner- General any amount so deducted, such bank or financial institution or company shall be liable for the entire amount of the tax it was required to deduct under the provisions of this section but has not so deducted or, as the case may be, for the entire amount or part of the amount of the tax deducted and not remitted to the Commissioner-General, and the amount not deducted or deducted and not remitted, as the case may be, shall be deemed to be in default from the day following the day on or before which such amount should have been remitted to the Commissioner-General, and bank or financial institution or company shall be deemed to be a defaulter, and such amount may be recovered from bank or financial institution or company in the manner provided for in this Act.

Default in the deduction of income tax .

$ 32, 18 of 2013 w.e.f.01.04.2013

(2) Notwithstanding the provisions of subsection (1), the Commissioner-General may recover from the person from whom such deduction should have been made, the amount of the income tax or any part thereof which the bank or financial

institution or company has failed to deduct from the interest paid to such person.

(3) Nothing in this section shall be read and construed as preventing the Commissioner-General from taking such steps as he thinks fit, to recover the amount of income tax referred to in subsection (2) wholly from the bank or financial institution or company or wholly from the person from whom such deduction should have been made or partly from the bank or financial institution or company and partly from that person.

143. Issue of assessments on banks and financial institutions.

Where any bank or financial institution which is required to deduct income tax from the interest paid in any year of assessment to any person chargeable with income tax under this Act, fails to—

(*a*) deduct the whole or any part of the income tax which it is required to deduct under this Chapter;

(*b*) remit to the Commissioner-General the whole or any part of the income tax so deducted; or

(*c*) furnish any declaration under section 140,

an Assessor or Assistant Commissioner may at any time within three years from the end of that year of assessment, assess the amount of income tax or the additional amount of income tax which in the opinion of the Assessor or Assistant Commissioner such bank or financial institution should have deducted and paid to the Commissioner-General for such year of assessment, and shall by notice in writing, require such bank or financial institution to pay such amount forthwith together with such amount as may be due under section 145:

Provided that, where in the opinion of the Assessor or Assistant Commissioner any fraud, evasion or willful default has been committed by or on behalf of any such bank or financial institution, in relation to any such income tax deductible by such bank or financial institution, it shall be lawful for the Assessor or Assistant Commissioner to make an assessment or an additional assessment on such bank or financial institution, at any time after the end of such year of assessment.

144. Appeals.

(1) Any Bank or financial institution aggrieved by the amount of any assessment made under the provisions of section 143 may appeal in writing against such assessment to the Commissioner-General within a period of thirty days after the date of the notice of such assessment:

Provided that, the Commissioner-General upon being satisfied that owing to absence from Sri Lanka, sickness or other reasonable

cause, the appellant was prevented from appealing within such period, shall grant an extension of time for preferring the appeal.

(2) Where the assessment appealed against under subsection (1) has been made in the absence of a declaration required to be furnished under section 140, the petition of appeal shall be preferred together with such declaration.

(3) Every bank or financial institution preferring an appeal under subsection (1) against the amount of an assessment, shall, (unless such bank or financial institution has already done so), remit to the Commissioner-General the whole or any part of the income tax (which such bank or financial institution was required under the provisions of this Chapter, to deduct from the interest paid by such bank or financial institution in respect of that year of assessment and to remit to the Commissioner-General, but which has not been remitted) together with any penalty under section 145 which has accrued thereon up to the date of the notice of such assessment, and shall attach to the petition of appeal a receipt in proof of such remittance.

(4) A petition of appeal which does not conform to the provisions of subsection (2) and (3) shall not be valid.

(5) The amount of income tax charged by an assessment made under section 143 shall be paid by the bank or financial institution, notwithstanding that an appeal against such assessment has been preferred under subsection (1).

(6) The provisions of subsection (7) of sections 165 to 170 shall, *mutatis mutandis*, apply to any appeal preferred under subsection (1).

(7) Where no valid appeal has been preferred within the period specified in subsection (1) against an assessment made in accordance with the provisions of this Chapter, or where an agreement is reached under subsection (6) of section 165 as regards the assessment, or where an assessment has been determined on appeal, the assessment as made or agreed or determined on appeal, as the case may be, shall be final and conclusive for all purposes of this Act.

Penalty for default.

145. (1) Where any income tax for any year of assessment payable by a bank or financial institution under the provisions of this Chapter is in default, such bank or financial institution shall pay in addition to such tax–

(*a*) a penalty of a sum equivalent to ten per centum of such tax; and

(*b*) where such tax is not paid before the expiry of thirty days after it has begun to be in default, a further penalty of a sum equivalent to two per centum of the tax in default in respect of each further period of thirty days or part thereof, during which it remains in default:

Provided that—

(i) the Commissioner-General may waive or reduce the amount of any such penalty payable by such bank or financial institution, if such bank or financial institution proves to the satisfaction of the Commissioner-General that the failure to pay was due to circumstances beyond its control and that it has paid the tax in default and has furnished the declaration required to be furnished at the time of such payment; and

(ii) the total amount payable as penalty under the preceding provisions of this section shall, in respect of the tax in default for any year of assessment, not exceed fifty *per centum* of the tax in default.

146. Where any income tax payable by a bank or financial institution under the provisions of this Chapter is in default, such bank or financial institution shall pay in addition to such tax a penalty and interest in the manner provided in subsection (3) of section 173, notwithstanding the provisions of section 145.

Penalty and interest on default.

147. In this Chapter, "financial institution" means any person or body of persons, corporate or unincorporate, whose business or part of whose business consists in the acceptance of money by way of deposit, or loan in the form of debenture or bond or in any other form, and the payment of interest thereon, whether such acceptance is on its own behalf or on behalf of any other person.

Interpretation.

148. Where any tax has been deducted from any person or partnership in accordance with the provisions of sections 133, such person or partnership, as the case may be, shall be a person or partnership chargeable with income tax.

Person or Partnership chargeable withincome tax.

149. For the purposes of this Chapter, any Co-operative Society registered under the Co-operative Societies Law, No. 5 of 1972, shall be deemed to be a company.

Registered cooperative societies deemed to be companies.

150. (1) Any bank or financial institution which is liable to deduct income tax from interest paid by such bank or financial institution under this Chapter, shall apply for and obtain a registration number from the Commissioner- General, thirty days prior to the commencement of such deduction of tax, and shall furnish a return to the Commissioner-General:

Registration of banks and financial institutions.

[$ 33, 9 of 2015]

(a) on a monthly basis, for any year of assessment commencing prior to April 1, 2015; and

(b) on a quarterly basis, for any year of assessment commencing on or after April 1, 2015,

containing such particulars as may be specified by the Commissioner-General in relation to such deductions.

(2) Any bank or financial institution which does not so register or does not furnish any return shall be liable to a penalty not exceeding fifty thousand rupees, which may be imposed by the Commissioner-General.

CHAPTER XVII

DEDUCTION OF INCOME TAX FROM SPECIFIED FEES PAID BY SPECIFIED PERSONS

151. Repealed

$ 37,22 of 2011
w.e.f.01.04.2011

152. Repealed

$ 42, 9 of 2008
w.e.f.01.04.2008

153. (1) Every specified person shall, subject to the provisions of this Chapter, deduct from any specified fee payable and paid prior to April 1, 2011, to any person or to any partnership, at the time such specified fee is paid, income tax at the rate of five per centum of such specified fee:

Specified persons to deduct income tax from specified fees.
$ 38,22 of 2011

$ 36, 10 of 2007
w.e.f.30.03.2007

Provided that where the specified fee for any year of assessment commencing on or after April 1, 2007, consists of fees in respect of any construction work, the rate at which income tax is deductible from such fees, shall be one per centum.

Provided further that where it is proved to the satisfaction of the Commissioner-General that any person or partnership is registered with the Department of Inland Revenue as a person or partnership chargeable with the Economic Service Charge under the Economic Service Charge Act, No. 13 of 2006, the Commissioner-General shall direct that the provisions of this section relating to the deduction of income tax shall not apply, in relation to any specified fee payable on or after April 1, 2008 to such person or partnership.

$ 43, 9 of 2008
w.e.f.01.04.2008

(2) For the purposes of subsection (1)—

"specified person" in relation to any year of assessment, means any person, partnership or body of persons, who or which either

on his or it's own behalf or on behalf of any other person or persons or partnership or partnerships, is likely to pay or to credit in that year of assessment or has paid or credited in the year of assessment immediately preceding that year of assessment, specified fees aggregating to not less than one million rupees, and

"specified fee" in relation to any year of assessment means any sum or sums aggregating to not less than—

(*a*) fifty thousand rupees for any calendar month in that year of assessment ; or

$ 19, 9 of 2009 w.e.f.01.04.2006

(*b*) five hundred thousand rupees in that year of assessment,

payable by any specified person in that year of assessment to any person or partnership in consideration of services rendered by that person or partnership, as the case may be, in the course of any business, profession, vocation or other activities of an independent character carried on or exercised by that person or partnership, as the case may be, and includes any commission, brokerage, a payment made for the supply of any article on a contract basis through tender or quotation or other sums of like nature payable by such specified person, but does not include any sum payable by such specified person to any employee of such specified person in the course of employment under such specified person or any rent or other payment payable for the use or occupation, otherwise than as a place of residence, of any specified land or building, as defined in subsection (2) of section 156.

$ 36, 10 of 2007 w.e.f.01.04.2006

$ 43, 9 of 2008 w.e.f.01.04.2008

154. The provisions of Chapter XVI relating to the deduction of income tax from interest paid by banks and financial institutions, credit for income tax so deducted, issue of directions, duties of banks and financial institutions, default in the deduction of income tax, issue of assessments on banks and financial institutions, appeals and penalty for default shall, *mutatis mutandis*, apply to the deduction of income tax from specified fees by specified person, credit for income tax so deducted, issue of directions, duties of specified persons, default in the deduction of income tax, issue of assessments on specified persons, appeals and penalty for default under this Chapter, as if there were substituted in Chapter XVI for the words "banks and financial institutions", of the words "specified persons" and for the word "interest", of the words "specified fee", wherever they appear in that Chapter, subject however to the modification, that credit for income tax deducted under the provisions of this Chapter by any specified person from any specified fee paid to any partnership shall, unless the partners of such partnership by mutual agreement determine otherwise, be distributed among such partners in the ratio in which such partners share the profits or losses of such partnership.

Provisions of Chapter XVI to apply in relation to the deduction under this Chapter of income tax from specified fees.

CHAPTER XVIII

DEDUCTION OF INCOME TAX FROM RENT, LEASE RENT OR OTHER PAYMENT PAID BY ANY PERSON OR PARTNERSHIP FOR THE USE OR OCCUPATION OF ANY LAND OR BUILDING OTHER THAN FOR RESIDENTIAL PURPOSES

155. Every person or partnership paying on or before April 1, 2011, any rent lease rent or such other payment, for the use or occupation otherwise than as a residence, of any specified land or building, shall deduct at the time of the payment of such rent, lease rent or other payment, income tax at the rate of ten *per centum* of such rent, lease rent or other payment.

Persons paying rent, lease rent etc. to deduct income tax.
$ 44, 9 of 2008
$ 39,22 of 2011

Every person or partnership paying any rent, lease rent or other payment for the use or occupation otherwise than as a residence, of any specified land or building, shall deduct at the time of the payment such rent, lease rent or other payment:

$ 44, 9 of 2008
w.e.f.01.04.2008

Provided that where it is proved to the satisfaction of the Commissioner-General that any person or partnership is registered with the Department of Inland Revenue as a person of partnership, chargeable with the Economic Service Charge under the Economic Service Charge Act, No. 13 of 2006, the Commissioner-General shall direct that the provisions of this section relating to the deduction of income tax shall not apply, in relation to such rent, lease rent or other payment payable on or after April 1, 2008, to such person or partnership.

156. (1) The provisions of Chapter XVI relating to the deduction of income tax from interest paid by banks and financial institutions, credit for income tax so deducted, issue of directions, duties of banks and financial institutions, default in the deduction of income tax, issue of assessments on banks and financial institutions, appeals and penalty for default shall, *mutatis mutandis*, apply to the deduction of income tax from such rent, lease rent or other payments as is mentioned in section 155, credit for income tax so deducted, duties of persons liable to pay such rent, lease rent, or other payment, default in the deduction of income tax, issue of assessments on such persons, appeals and penalty for default under this Chapter, as if there were substituted in Chapter XVI for the words "banks and financial institutions" of the words "persons liable to pay such rent, lease rent or other payment" and for the word "interest" of the words "rent, lease rent or other payment", wherever they appear in that Chapter, subject however, to the modification that credit for income tax deducted under the provisions of this Chapter by any person from any rent, lease rent or any other payment paid to any

Application of the provisions of Chapter XVI to this Chapter.

$ 45, 9 of 2008
w.e.f.01.04.2008

co owners of such property shall be apportioned among such co-owners in proportion to their rights of ownership in such property.

(2) For the purposes of this Chapter "specified land or building" means a land or building in respect of which the amount of rent, lease rent or other payment payable for any calendar month or part thereof is not less than fifty thousand rupees or the aggregate rent, lease rent or other payment payable for any year, is not less than five hundred thousand rupees.

$ 45, 9 of 2008 w.e.f.01.04.2008

(3) Any person or partnership who or which is liable to deduct income tax from any rent, lease rent or other payment made by such person or partnership under this Chapter, shall apply for and obtain a registration number from the Commissioner-General thirty days prior to the commencement of such deduction of tax and shall furnish return on a monthly basis, containing such particulars as may be specified by the Commissioner-General in relation to such deductions.

$ 45, 9 of 2008 w.e.f.01.04.2008

(4) Any person or partnership who or which does not register or does not furnish any return as required under the subsection (3), shall be liable to a penalty not exceeding fifty thousand rupees which may be imposed by the Commissioner-General.

CHAPTER XIX

DEDUCTION OF INCOME TAX FROM REWARD PAYMENTS MADE BY ANY GOVERNMENT INSTITUTION TO INFORMANTS AND OTHERS AND SHARES OF FINES PAID TO ANY PERSON AND LOTTERY PRIZES, WINNINGS FROM GAMBLING OR WINNINGS FROM BETTING, PAID BY ANY PERSON OR PARTNERSHIP

Government institution paying rewards or fines or other person or partnership paying lottery prizes etc. to deduct income tax.

157. Notwithstanding anything to the contrary in any other law. where,

(*a*) any Government institution pays a reward or distributes a share of fine other than any such share of fine paid out of the Consolidated Fund or which will fall under the profits from employment in terms of section 4 of this Act, in relation to any individual who holds any paid office under the Republic of Sri Lanka, to any person;

(*b*) any person or partnership pays a lottery prize, winnings from gambling or winnings from betting to any person,

such institution, person or partnership, as the case may be, shall deduct at the time of the payment of such reward, share of fine, a lottery prize, winning from gambling or winning from betting, as the case may be, income tax at the rate of ten *per centum* on such gross payment:

Provided, however, in case of any payment referred to in paragraph (*b*), the tax shall be deducted only where such payment is not less than five hundred thousand rupees:

Provided further, where any person or partnership pays a lottery prize, winnings from gambling or winnings from betting, other than in cash, such person or partnership shall be liable to pay the relevant amount of income tax on such lottery prize winnings from gambling or winnings from betting, to the Commissioner-General.

158. (1). The provisions of Chapter XVI relating to the deduction of income tax from interest paid by banks and financial institutions, duties of banks and financial institutions, default in the deduction of income tax, issue of assessments of banks and financial institutions, appeals and penalty for default, shall, *mutatis mutandis*, apply to the deduction of income tax from such payments of rewards, share of fines, lottery prizes, winnings from gambling or winnings from betting as is mentioned in section 157, duties of persons or partnerships making such reward payments, share of fine, lottery prize, winnings from gambling or winnings from betting, default in the deduction of income tax, issue of assessments on such persons and partnerships, appeals and penalty for default under this Chapter, as if there were substituted in Chapter XVI for the words "banks and financial institutions" of the words "any person or partnership paying any reward, share of fine, a lottery prize, winnings from gambling or winnings from betting" and for the word "interest" of the words "any reward, share of fine, lottery prize, winnings from gambling or winnings from betting", wherever they appear in that Chapter.

Provisions of Chapter XVI to apply in relation to any deduction under this Chapter.

(2) (*a*) The aggregate amount of—

(i) rewards paid to any person during any calendar month, shall be deemed to be one reward payment and the income tax on such payment shall be deducted on the last working day of each month or on the date of the last reward payment in any month;

(ii) shares of fines paid to any person during any calendar month, shall be deemed to be one share of fine payment and the income tax on such payment shall be deducted on the last working day of each month or on the last share of fine payment in any month;

(iii) winnings from gambling paid or winnings from betting paid per day to any person, shall be deemed to be one payment of winnings from gambling or winnings from betting and the income tax on such payment shall be deducted during the course of that day.

(*b*) In the case of lottery prizes, each such prize whether paid in cash or otherwise, shall be considered as a separate prize.

(3) For the purposes of this Chapter—

"reward" means any gift made or reward paid by the Government under any scheme for the payment of rewards to the informants and others;

"share of fine" means any share of fine collected and distributed or paid by the Government in accordance with any scheme for the payment of fines;

"lottery prize" means any prize either in money or otherwise, offered and won in any lottery conducted by any person in Sri Lanka;

"winnings from gambling" means any payment received for winning in any gambling or gaming activity from any party, including a casino;

"winnings from betting" means any payment received for winning in any on-course or off-course betting.

(4) Notwithstanding the provisions of section 140 the total amount of the tax deducted–

(*a*) from lottery prizes shall be remitted, to the Commissioner-General, on the first day of the week and where such first day of the week is not a working day, on the following working day, which amount shall be the total tax deducted during the week ending on the Sunday immediately preceding the date of such remittance;

(*b*) from the winnings from gambling or winnings from betting shall be remitted to the Commissioner- General, on the first day of the week and where such first day of the week is not a working day, on the following working day, and the amount to be remitted shall be the total tax deducted during the week ending on the Sunday immediately preceding the date of such remittance.

159. (1) Any person or partnership who or which is conducting any lottery or betting or gambling activity within the meaning of this Chapter, shall apply for and obtain a registration number from the Commissioner-General thirty days prior to the commencement of such activity, if the prizes awarded or payments made are liable to the deduction of income tax under this Chapter, and shall furnish a return:

Registration of Persons conducting lotteries or betting or gambling activities.

[$ 34, 9 of 2015]

(a) on a monthly basis, for any year of assessment commencing prior to April 1, 2015 ; and

(b) on a quarterly basis, for any year of assessment commencing on or after April 1, 2015,

containing such particulars as may be specified by the Commissioner-General in relation to such activity.

(2) Any person or partnership who or which does not so register or does not furnish any return, shall be liable to a penalty not exceeding fifty thousand rupees, which may be imposed by the Commissioner-General.

CHAPTER XX

DEDUCTION OF INCOME TAX FROM ANY ANNUITY OR ROYALTY PAID OR ANY MANAGEMENT FEE PAID OR SIMILAR PAYMENT MADE BY ANY PERSON OR PARTNERSHIP

160. Notwithstanding anything to the contrary in any other law, where any person or partnership pays—

Persons paying annuity, royalty, management fee or similar payment to deduct income tax.
$ 40,22 of 2011 w.e.f.01.04.2011

(*a*) an annuity or royalty other than any such annuity or royalty referred to in section 95; or

(*b*) any management fee,

such person or partnership, as the case may be, shall deduct at the time of such payment of annuity, royalty or management fee, income tax at the rate of–

$ 40,22 of 2011 w.e.f.01.04.2011

(i) ten *per centum* of the gross annuity or royalty paid; and

(ii) five *per centum* of any management fee paid:

$ 40,22 of 2011 w.e.f.01.04.2011

Provided however, that in case of any payment referred to in paragraph (*a*), the tax shall be deducted only where each such payment of annuity or royalty to any person or partnership is in excess of rupees fifty thousand in any month or rupees five hundred thousand in any year.

Provided further that where it is proved to the satisfaction of the Commissioner-General that any person or partnership is registered with the Department of Inland Revenue as a person or partnership chargeable with the Economic Service Charge under the Economic Service Charge Act, No. 13 of 2006, the Commissioner-General shall direct that the provisions of this section relating to the deduction of income tax shall not apply, in relation to any annuity, royalty or management fee payable on or after April 1, 2008, to such person or partnership.

$ 46, 9 of 2008 w.e.f.01.04.2008

161. (1) The provisions of Chapter XVI relating to the deduction of income tax from interest paid by banks or financial institutions, credit for income tax so deducted, issue of directions, duties of banks and financial institutions, default in the deduction of income tax, issue of assessments on banks and financial institutions and appeals and penalty for default, shall, *mutatis mutandis* apply to the deduction of income tax from such payments of any annuity, royalty, management fee or such other similar payment as is mentioned in section 160, duties of persons or partnership making such payments of any annuity, royalty, management fee or similar payments, credit for income tax so deducted, issue of directions, default in the deduction of income tax, issue of assessments on such persons and appeals and penalty for default under this Chapter, as if there were substituted in Chapter XVI for the words "banks and financial institutions" of the words "persons or partnerships liable to pay such annuity, royalty management fee or such similar payment" and for the word "interest" of the words "annuity, royalty, management fee or such similar payment", wherever they appear in that Chapter.

Application of the provisions of Chapter XVI to this Chapter.

(2) Any person or partnership who or which is liable to deduct income tax under this Chapter, shall apply for and obtain a registration number from the Commissioner General thirty days prior to the commencement of such deduction of tax, and shall furnish a return on a monthly basis containing such particulars as specified by the Commissioner-General.

(3) Any person or partnership who or which does not so register or does not furnish any return, shall be liable to a penalty not exceeding rupees fifty thousand, which may be imposed by the Commissioner-General.

CHAPTER XXA

DEDUCTION OF INCOME TAX FROM THE SALE PRICE OF ANY GEM SOLD AT ANY AUCTION CONDUCTED BY THE NATIONAL GEM AND JEWELLERY AUTHORITY.

$ 47, 9 of 2008 w.e.f.01.01.2008

161A. (1) The National Gem and Jewellery Authority established by the National Gem and Jewellery Authority Act, No. 50 of 1993, shall deduct from the sale price of any gem sold at any auction conducted by it, income tax of an amount equal to 2.5 *per centum* of the sale price of such gem from the sum payable to the seller of such gem and at the time such sum is paid to the seller.

National Gem and Jewellery Authority deduct income tax from the sale price of any gem sold at any auction.

(2) The provisions of Chapter XVI relating to the deduction of income tax from interest paid by banks and financial institutions, duties of banks and financial institutions, default in the deduction of income tax, issue of assessments on banks and financial

institutions, appeals and penalty for default, shall, *mutates mutandis* apply to and in relation to the deduction of income tax from the sale price of any gem, duties of the National Gem and Jewellery Authority making such sale, default in the deduction of income tax, issue of assessments on the National Gem and Jewellery Authority, appeals and penalty for default under this Chapter, as if there were substituted in Chapter XVI for the words "banks and financial institutions" of the words "National Gem and Jewellery Authority", and for the word "interest", of the words "sale price of any gem sold", wherever they appear in that Chapter.

CHAPTER XXI
RETENTION OF MONEYS IN CERTAIN PROVIDENT FUNDS

162. The person having custody of the moneys lying in any provident fund to the credit of a contributor to such fund who is liable to income tax on any part of such moneys, shall, when he makes payment of these moneys to that contributor, retain in his custody an amount equal to ten *per centum* of those moneys, other than such part thereof as represents the contributions made by that contributor. The person who retains in his custody such amount shall notify the Commissioner-General of the amount so retained, and deduct there from the sum which the Commissioner-General by notice in writing directs him to deduct in respect of any tax payable under any law administered by the Commissioner-General, and the sum so deducted shall be paid to the Commissioner- General. Any balance left after such deduction shall be paid to such contributor.

Retention of ten *per centum* of moneys lying to the credit of a contributor to a Specified provident fund, to meet any tax payable.

$ 48, 9 of 2008
w.e.f.01.04.2008

CHAPTER XXII
ASSESSMENTS

163. (1) Where any person who in the opinion of an Assessor or Assistant Commissioner is liable to any income tax for any year of assessment, has not paid such tax or has paid an amount less than the proper amount which he ought to have paid as such tax for such year of assessment, an Assessor Assistant Commissioner may, subject to the provisions of subsection (3) and (5) and after the fifteenth day of November immediately succeeding that year of assessment, assess the amount which in the judgment of the Assessor Assistant Commissioner ought to have been paid by such person, and shall by notice in writing require such person to pay forthwith–

(*a*) the amount of tax so assessed, if such person has not paid any tax for that year of assessment; or

(*b*) the difference between the amount of tax so assessed and the

Assessments and Additional assessments.

$ 49, 9 of 2008
$ 20, 19 of 2009
w.e.f.31.03.2009

amount of tax paid by such person for that year of assessment, if such person has paid any amount as tax for that year of assessment:

Provided that an Assessor or Assistant Commissioner may, subject to the provisions of subsections (3) and (5), assess any person for any year of assessment at any time prior to the fifteenth day of November immediately succeeding that year of assessment, if he is of opinion that such person is about to leave Sri Lanka or that it is expedient to do so for the protection of revenue, and require such person to pay such tax to the Commissioner-General earlier than as required under subsection (1) of section 113:

$ 49, 9 of 2008 w.e.f.01.04.2006

$ 33, 18 of 2013 w.e.f.01.04.2013

Provided further that any assessment in relation to the tax payable by a company under sub-paragraph (i) of paragraph (*b*) of subsection (1) of section 61 or paragraph (*c*) of subsection (1) of section 61 or paragraph (*b*) of subsection (1) of section 62shall be made after the expiry of thirty days from the due date for payment of such tax.

(2) Where it appears to an Assessor or Assistant Commissioner that any person liable to income tax for any year of assessment, has been assessed at less than the proper amount, the Assessor or Assistant Commissioner may, subject to the provisions of subsection (3) and subsection (5), assess such person at the additional amount at which according to his opinion such person ought to have been assessed, and the provisions of this Act as to notice of assessment, appeal and other proceedings shall apply to such additional assessment and to the tax charged there under.

(3) Where a person has furnished a return of income, the Assessor or Assistant Commissioner may in making an assessment on such person under subsection (1) or under subsection (2), either–

(*a*) accept the return made by such person; or

(*b*) if he does not accept the return made by that person, estimate the amount of the assessable income of such person and assess him accordingly:

Provided that where an Assessor or Assistant Commissioner does not accept a return made by any person for any year of assessment and makes an assessment or additional assessment on such person for that year of assessment, he shall communicate to such person in writing his reasons for not accepting the return.

(4) Where a person has not furnished a return of income and the Assessor or Assistant Commissioner is of the opinion that such

person is liable to pay income tax, the Assessor may, in making an assessment on such person under subsection (1) or subsection (2), estimate the amount of the assessable income of such person and assess him accordingly, but such assessment shall not affect the liability of such person to a penalty under this Act for failure or neglect to furnish a return.

(5) Subject to the provisions of section 72, no assessment of the income tax payable under this Act by any person or partnership -

(a) who or which has made a return of his or its income on or before the thirtieth day of November of the year of assessment immediately succeeding that year of assessment, *$ 20, 19 of 2009 w.e.f.01.04.2009* *$ 41,22 of 2011*

(i) where such year of assessment is any year of assessment commencing prior to April 1, 2013, shall be made after the expiry of a period of two years from the thirtieth day of November of the immediately succeeding year of assessment; and *$ 33, 18 of 2013 w.e.f.01.04.2013*

(ii) where such year of assessment is any year of assessment commencing on or after April 1, 2013, shall be made after the expiry of a period of eighteen months from the thirtieth day of November of the immediately succeeding year of assessment:

(b) who has failed to make a return on or before such date as referred to in paragraph (*a*), shall be made after the expiry of a period of four years from the thirtieth day of November of the immediately succeeding year of assessment: *$ 20, 19 of 2009 w.e.f.01.04.2009 $ 41,22 of 2011*

Provided, that nothing in this subsection shall apply to the assessment of income tax payable by any person in respect of any year of assessment, consequent to- *[$ 35, 9 of 2015]*

(i) the receipt by such person of any arrears relating to the profits from employment of that person for that year of assessment;

(ii) any adjustment made in line with the adoption of the Sri Lanka Financial Reporting Standards for the year of assessment in which such adoption was made; or

(iii) any profits and income or the loss ascertained in accordance with the provisions referred to in section 104 or section 104A, as the case may be, for any year of assessment commencing on or after April 1, 2013, for any period before the expiry of five years from the date of receipt of such return, where the Commissioner General is in the opinion that:

(A) the profits and income or the loss referred to in section 104, of any person, has not been ascertained having regard

to the arm's length price, and issue of such assessment is not contrary to any provision of an agreement in force for the relief of double taxation between the Government of Sri Lanka and the Government of any territory in which such person is resident; or

(B) the profits and income or the loss referred to in section 104A, of any person, has not been ascertained having regard to the arm's length price:"

$ 39, 8 of 2014
w.e.f.01.04.2014

Provided further that, where in the opinion of the Assessor or Assistant Commissioner, any fraud, evasion or willful default has been committed by or on behalf of, any person in relation to any income tax payable by such person for any year of assessment, it shall be lawful for the Assessor or Assistant Commissioner to make an assessment or an additional assessment on such person at any time after the end of that year of assessment.

(6) Notwithstanding the provisions of subsection (5), where the Court annuls any assessment on the ground that the provisions of the proviso to subsection (3) have not been complied with, it shall be lawful for an Assessor or Assistant Commissioner to make, where necessary, a further assessment in place of the assessment so annulled:

Provided that such further assessment shall be limited to only one assessment in place of the assessment so annulled, and no further assessment or additional assessment shall be made.

(7) An assessment under subsection (1) or an additional assessment under subsection (2) on any person for any year of assessment, shall not affect the liability of such person to the penalty specified in subsection (2) of section 173 and for the purposes of that section, the amount so assessed shall be deemed to be the income tax which such person ought to have paid for that year of assessment.

(8) Where any individual has for any year of assessment (hereinafter in this subsection referred to as the "first mentioned year of assessment") furnished a return of his income and has, in relation o each year of assessment within the period of three years of assessment immediately preceding the first-mentioned year of assessment, complied with the requirements of subsection (1) of section 106 and of subsection (1) of section 113, and has –

(*a*) (i) paid as income tax, on the basis of the return so furnished for the first-mentioned year of assessment, a

sum not less than one hundred and twenty *per centum* of the income tax for the year of assessment immediately preceding the first mentioned year of assessment; or

(ii) specified as assessable income, in the return so furnished for the first mentioned year of assessment, a sum not less than one hundred and twenty five *per centum* of the assessable income for the year of assessment immediately preceding the first mentioned year of assessment, and

(*b*) sworn an affidavit that no fraud, evasion or willful default has been committed in relation to the income tax payable for the first mentioned year of assessment, *$ 49, 9 of 2008 w.e.f.01.04.2006*

then such return shall be accepted and no assessment or additional assessment shall be made on such individual.

(9) Where any individual whose assessable income for any year of assessment does not exceed one million rupees, and who has -

(*a*) not been given notice by a Commissioner under subsection (7) of section 106 in relation to that year of assessment or any previous year of assessment; or

(b) not furnished a return of his income, and if he has a child, the income of such child for any previous year of assessment,

furnishes for that year of assessment, under subsection (1), a return of his income and if he has a child the income of such child, and pays the tax on the basis of such return together with any penalty due under Chapter XXV, such return shall be accepted and no assessment or additional assessment shall be made on such individual for that year of assessment, notwithstanding that such return is not accompanied by a statement of accounts.

(10) Notwithstanding anything to the contrary in any other provisions of this Act, where the annual total turnover of any person other than a company for any year of assessment commencing prior to April 1, 2011 from every trade or business did not exceed rupees three hundred million and such person has not complied with the provisions of any tax law administered by the Commissioner - General, invests earnings so made by such person prior to April 1, 2011, in any trade or business, on or before March 31, 2014, and furnishes the return of income for any year of assessment commencing prior to April 1, 2014 together with an undertaking in writing that he shall comply with the requirements of this Act for any subsequent period, such return shall be accepted and no assessment or additional assessment shall be made on such *$ 33, 18 of 2013 w.e.f.01.04.2013*

person in respect of such year of assessment for which a return of income is so furnished and for five years of assessment immediately succeeding that year of assessment.

164. An Assessor or Assistant Commissioner shall give notice of assessment to each person and each partnership who or which has been assessed, stating the amount of income assessed and the amount of tax charged:

Notice of Assessment
$ 50, 9 of 2008 w.e.f.01.04.2006

Provided that where such notice is given to an employer under the provisions of Chapter XIV, it shall be sufficient to state therein the amount of the tax charged.

CHAPTER XXIII

APPEALS
A-APPEALS TO THE COMMISSIONER-GENERAL

165. (1) Any person who is aggrieved by the amount of an assessment made under this Act or by the amount of any valuation for the purposes of this Act may, within a period of thirty days after the date of the notice of assessment, appeal to the Commissioner-General against such assessment or valuation:

Appeals to the Commissioner-General.

Provided that the Commissioner-General, upon being satisfied that owing to absence from Sri Lanka, sickness or other reasonable cause, the appellant was prevented from appealing within such period, shall grant an extension of time for preferring the appeal.

(2) Every appeal shall be preferred by a petition in writing addressed to the Commissioner-General and shall state precisely the grounds of such appeal.

(3) Where the assessment appealed against has been made in the absence of a return, the petition of appeal shall be sent together with a return duly made.

(4) Every person preferring an appeal under subsection (1) against the amount of an assessment for any year of assessment shall, (unless such person has done so already), pay to the Commissioner-General the amount of tax payable by such person on the basis of the return furnished by him for that year of assessment, together with any penalty thereon accrued up to the date of such notice of assessment and shall attach, to the petition of appeal, a receipt in proof of such payment:

Provided that the Commissioner-General, upon being satisfied that owning to serious financial hardship suffered by the appellant at or about the time of such notice of assessment or,

owning to other reasonable cause, the appellant was prevented from paying such tax and such penalty, may grant an extension of time for the payment of such tax and penalty thereon accrued up to the date of payment, and accordingly a receipt in proof of payment of such tax and penalty thereon accrued up to the date of payment, furnished within such extended time shall, for the purposes of this subsection, be deemed to have been attached to the petition of appeal.

(5) Every petition of appeal, which does not conform to the provisions of subsections (2), (3) and (4), shall not be valid.

(6) The receipt of every appeal shall be acknowledged within thirty days of its receipt and where so acknowledged, the date of the letter of acknowledgement shall for the purpose of this section, be deemed to be the date of receipt of such appeal. Where however the receipt of any appeal is not so acknowledged, such appeal shall be deemed to have been received by the Commissioner General on the day of which it is delivered to the Commissioner-General.

(7) On receipt of a valid petition of appeal, the Commissioner-General may cause further inquiry to be made by an Assessor or Assistant Commissioner, other than the Assessor or Assistant Commissioner who made such assessment against which the appeal is preferred, and if in the course of such inquiry an agreement is reached as to the matters specified in the petition of appeal, the necessary adjustment of the assessment shall be made.

(8) Where no agreement is reached between the appellant and the Assessor or Assistant Commissioner in the manner provided in subsection (7), the Commissioner-General shall, subject to the provisions of section 168, fix a time and place for the hearing of the appeal.

(9) Every appellant shall attend before the Commissioner- General at the time and place fixed for the hearing of the appeal. The appellant may attend the hearing of the appeal in person or by an authorized representative. The Commissioner-General may if he thinks fit, from time to time adjourn the hearing of an appeal for such time and place as he may fix for the purpose. In any case in which an authorized representative attends on behalf of the appellant, the Commissioner-General may adjourn the hearing of the appeal and may, if he considers that the personal attendance of the appellant is necessary for the determination of the appeal, require that the appellant shall attend in person at the time and place fixed for the adjourned hearing of the appeal. If the appellant or his authorized representative fails to attend at the time and place fixed for the hearing or any adjourned hearing of the appeal, or if the appellant fails to attend in person when

required so to attend by the Commissioner- General, the Commissioner-General may dismiss the appeal:

Provided that, if the appellant shall within a reasonable time after the dismissal of an appeal satisfy the Commissioner-General, that he or his authorized representative was prevented from due attendance at the hearing or at any adjourned hearing of such appeal by reason of absence from Sri Lanka, sickness, or other unavoidable cause, the Commissioner-General may vacate the order of dismissal and fix a time and place for the hearing of the appeal.

(10) The Commissioner-General shall have power to summon any person whom he may consider able to give evidence respecting the appeal to attend before him, and may examine such person on oath or otherwise. Any person so attending may be allowed by the Commissioner-General any reasonable expenses necessarily incurred by such person in so attending.

(11) Before making his determination on any appeal, the Commissioner-General may if he considers it necessary so to do, by notice given in writing to any person, require that person to produce for examination, or to transmit to the Commissioner-General within the period specified in such notice, any such deeds, plans, instruments, books, accounts, trade lists, stock lists, registers, cheques, paying-in-slips, auditors' reports or other documents in his possession, as may be specified in such notice.

(12) Where the Commissioner-General hears the evidence of the appellant or of any other person in respect of the appeal, he shall maintain or cause to be maintained a record of such evidence.

(13) In determining an appeal under this section, the Commissioner-General may confirm, reduce, increase or annul the assessment appealed against and shall give notice in writing to the appellant, of his determination on the appeal.

(14) Every petition of appeal preferred under this section, shall be agreed to or determined by the Commissioner- General, within a period of two years from the date on which such petition of appeal is received by the Commissioner- General, unless the agreement or determination or such appeal depends on—

(*a*) the decision of a competent court on any matter relating to or connected with or arising from such appeal and referred to it by the Commissioner- General or the appellant; or

(*b*) the furnishing of any document or the taking of any action–

(i) by the appellant, upon being required to do so by an Assessor or Assistant Commissioner or the

Commissioner-General by notice given in writing to such appellant (such notice being given not later than six months prior to the expiry of two years from the date on which the petition of appeal is received by the Commissioner-General); or

(ii) by any other person, other than the Commissioner-General or an Assessor or Assistant Commissioner.

Where such appeal is not agreed to or determined within such period, the appeal shall be deemed to have been allowed and tax charged accordingly.

(15) For the purposes of this Chapter, there shall be a panel of adjudicators appointed by the Minister. The remuneration of the members of the panel of adjudicators shall be determined by the Minister. The Commissioner-General may authorize any such adjudicator to exercise any of the powers vested in him under this Chapter, as he may specify in such authorization.

B - APPEALS TO THE BOARD OF REVIEW

Constitution of the Board of Review.
$ 37, 10 of 2007
$ 42,22 of 2011

166. (1) For the purpose of hearing appeals made before April 1, 2011, in the manner hereinafter provided, there shall be a to the Board of Review (hereinafter referred to as "the Board") consisting of not more than thirty members who shall be appointed by the Minister. Every member of the Board so appointed shall hold office for a term not exceeding three years, but shall be eligible for reappointment.

(2) There shall be a Secretary to the Board who shall be appointed by the Minister.

(3) There shall be a panel of not more than three Legal Advisors to the Board who shall be appointed by the Board.

(4) Three or more members of the Board shall be nominated by the Minister and summoned by the Secretary to attend meetings at which appeals are to be heard. At such a meeting the quorum shall consist of two members.

(5) At the request of the Commissioner-General, the Secretary to the Board shall summon a meeting of the whole Board. At such a meeting the quorum shall consist of five members.

(6) The remuneration of the members of the Board, the Secretary and the Legal Advisors shall be fixed by the Minister.

167. (1) Any appellant or the authorized representative of any appellant, who is dissatisfied with the determination of the Commissioner-General on an appeal under section 165, may communicate in writing to the Commissioner- General his dissatisfaction with such determination. Every such communication shall be made within one week from the date of the determination.

Appeals to the Board of Review.

(2) Where the appellant has communicated in accordance with subsection (1) his dissatisfaction with the determination to the Commissioner-General, the Commissioner-General shall, within one month of the date of that determination, transmit in writing to the appellant or his authorized representative, his reasons for that determination.

(3) The appellant or his authorized representative may within one month of the transmission by the Commissioner-General under subsection (2), of his reason for determination, but not later than April 1, 2011, by petition in writing addressed to the Board, appeal from that determination. Every such petition shall–

$ 43,22 of 2011

(*a*) be accompanied by a copy of the Commissioner- General's determination and reasons against which the appeal is made;

(*b*) set out precisely the grounds of appeal therefrom;

(*c*) be delivered to the Secretary to the Board.

168. Notwithstanding the provisions of section 165, the Commissioner-General may refer any valid appeal made to him, to the Board of Review before April 1, 2011, and the Board shall hear and determine such appeal, and accordingly, the provisions of section 169 shall apply to the hearing and determination of any appeal so referred.

Commissioner-General may refer appeals to the Board of Review.
$ 44,22 of 2011

169. (1) As soon as may be after the receipt of a petition of appeal, the Secretary to the Board shall fix a date and time and place for the hearing of the appeal, and shall give fourteen day's notice thereof, both to the appellant and to the Commissioner-General.

Hearing and determination of appeals by the Board of Review.

(2) The Commissioner-General shall on receipt of a notice under subsection (1), transmit to the Board a copy of the record of evidence maintained under subsection (12) of section 165.

(3) Every appellant shall attend in person or by an authorized representative, the meeting of the Board at which the appeal is heard:

Provided that where an authorized representative of the appellant is present at the hearing of an appeal the, Board may postpone the hearing for such time as it thinks necessary to enable the attendance in person, of the appellant.

(4) The Assessor or Assistant Commissioner who made the assessment appealed against or some other person authorized by the Commissioner- General, shall attend the meeting of the Board at which such appeal is heard, in support of the assessment as determined by the Commissioner-General.

(5) The onus of proving that the assessment as determined by the Commissioner-General on appeal or as referred by him under section 168, as the case may be, is excessive or erroneous, shall be on the appellant.

(6) All appeals shall be heard in *Camera.*

(7) The Board shall have power to summon to attend at the hearing, any person whom it may consider able to give evidence respecting the appeal and may examine him as a witness, either on oath or otherwise. Any person so attending may be allowed by the Board any reasonable expenses necessarily incurred by him in so attending.

(8) Except with the consent of the Board and on such terms as the Board may determine, the appellant shall not at the hearing by the Board, be allowed to produce any document which was not produced before the Commissioner- General or to adduce the evidence of any witness whose evidence was not led before the Commissioner-General or whose evidence has already been recorded at the hearing before the Commissioner-General.

(9) At the hearing of the appeal the Board may, subject to the provisions of subsection (8), admit or reject any evidence adduced whether oral or documentary, and the provisions of the Evidence Ordinance relating to the admissibility of evidence shall not apply.

(10) After hearing the appeal, the Board shall either confirm, reduce, increase or annual the assessment as determined by the Commissioner-General on appeal, or as referred by him under section 168, as the case may be, or may remit the case to the Commissioner-General with the opinion of the Board thereon. Where a case is so remitted by the Board the Commissioner-General shall revise the assessment as the opinion of the Board may require. The decision of the Board shall be notified to the appellant and the Commissioner-General in writing:

Provided however, the Board shall make its determination or express its opinion, as the case may be, within two years from the date of commencement of the hearing of such appeal:

Provided further, where the hearing of any appeal had commenced prior to the date of the commencement of this Act, the appeal shall be determined or an opinion shall be expressed, within two years from the commencement of this Act.

(11) Where under subsection (10) the Board does not reduce or annul such assessment, the Board may order the appellant to pay as costs of the Board, a sum not exceeding five hundred rupees, which shall be added to the tax charged by the assessment and recovered therewith.

C - APPEALS TO THE COURT OF APPEAL

170. (1) The decision of the Board or the Tax Appeal Commission, as the case may be, shall be final:

Appeal on a question of law to the Court of Appeal.

Provided that either the appellant or the Commissioner-General may make an application requiring the Board or the Tax Appeal Commission, as the case may be, to state a case on a question of law for the opinion of the Court of Appeal. Such application shall not be entertained unless it is made in writing and delivered to the Secretary to the Board or the Tax Appeal Commission, as the case may be, together with a fee of one thousand and five hundred rupees, within one month of the date on which the decision of the Board or the Tax Appeal Commission, as the case may be, was notified in writing to the Commissioner-General or the appellant, as the case may be.

$ 45,22 of 2011 w.e.f.01.04.2011

(2) The case stated by the Board or the Tax Appeal Commission, as the case may be, shall set out the facts, the decision of the Board, and the amount of the tax in dispute where such amount exceeds five thousand rupees, and the party requiring the Board or the Tax Appeal Commission, as the case may be, to state such case shall transmit the case, when stated and signed to the Court of Appeal, within fourteen days after receiving the same.

$ 45,22 of 2011 w.e.f.01.04.2010

(3) For the purpose of the application of the provisions of the Stamp Duty Act, No. 43 of 1982–

$ 45,22 of 2011 w.e.f.01.04.2011

(*a*) all proceedings before the Court of Appeal on any case stated under this section or incidental to the hearing, determination or disposal of any such case, shall be deemed to be civil proceedings before the Court of Appeal of the value of five thousand rupees or of such greater amount as is set out by the Board or the Tax Appeal Commission, as the case may be, in the stated case as the amount of the tax in dispute;

(*b*) every such case stated shall, together with all books, documents and papers annexed thereto by the Board or the Tax Appeal Commission, as the case may be, be deemed to be a single exhibit in civil proceedings before the Court of Appeal; and

(*c*) the Commissioner-General, if he is the appellant, shall be

deemed to be a Government officer suing, or if he is the respondent to the appeal, a Government officer being sued, in a suit virtue offcii.

(4) At or before the time when he transmits the stated case to the Court of Appeal, the party requiring it shall send to the other party, a notice in writing informing him that a case has been stated on his application and shall supply him with a copy of the stated case.

(5) Any two or more Judges of the Court of Appeal may cause a stated case to be sent back to the Board or the Tax Appeal Commission, as the case may be, for amendment, and the Board or the Tax Appeal Commission, as the case may be, shall amend the case accordingly. *$ 45,22 of 2011 w.e.f.01.04.2011*

(6) Any two or more Judges of the Court of Appeal may hear and determine any question of law arising on the stated case and may in accordance with the decision of Court upon such question, confirm, reduce, increase or annul the assessment determined by the Board or the Tax Appeal Commission, as the case may be, or may remit the case to the Board or the Tax Appeal Commission, as the case may be, with the opinion of the Court, thereon. Where a case is so remitted by the Court, the Board or the Tax Appeal Commission, as the case may be, shall revise the assessment in accordance with the opinion of the Court. *$ 45,22 of 2011 w.e.f.01.04.2011*

(7) The Court of Appeal may, pending the determination of the case stated to such Court, make an interim determination as regards the amount of tax recoverable by the Commissioner-General in respect of the amount of tax in dispute, on the basis of a report furnished by the Commissioner-General.

(7A) Where the Court of Appeal makes an interim determination under subsection (7), the Court may make Order that the full tax in dispute or part thereof, be paid in a manner as the Court considers reasonable, pending the final determination of the appeal. *$ 45,22 of 2011 w.e.f.01.04.2011*

Any excess payment of tax arising as a result of the final determination by the Court on the appeal shall be refunded to the appellant.

(8) In any proceedings before the Court of Appeal under this section, the Court may make such order in regard to costs in the Court of Appeal and in regard to the sum paid under subsection (1), as the Court may deem fit.

(9) For the purposes of enabling the Commissioner- General or any other party to appeal to the Supreme Court against any order of the Court of Appeal under subsection (6), and for the purpose of the application of the provisions of any written law relating to

appeals to the Supreme Court from the decisions of the Court of Appeal–

(*a*) an order made by the Court of Appeal under subsection (6) shall, together with any order of that Court under subsection (8), be deemed to be a final judgement of the Court of Appeal in a civil action between the Commissioner-General and such other party;

(*b*) the value of the matter in dispute in such civil action shall be deemed to be five thousand rupees:

Provided that where the Board or the Tax Appeal Commission, as the case may be, has in the stated case, set out an amount higher than five thousand rupees as the amount of the tax in dispute, the value of the matter in dispute in such civil action shall be deemed to be that higher amount; and

$ 45,22 of 2011 w.e.f.01.04.2011

(*c*) the Commissioner-General shall not be required in respect of any such appeal, to make any deposit or pay any fee or furnish any security prescribed by such written law.

CHAPTER XXIV
FINALITY OF ASSESSMENTS AND PENALTY FOR INCORRECT RETURNS

171. Where no valid appeal has been lodged within the time specified in subsection (1) of section 165 against an assessment as regards the amount of the assessable income assessed thereby, or where an appeal preferred against such an assessment is dismissed under subsection (9) of section 165, or where agreement is reached under subsection (7) of section 165 as to the amount of such assessable income, or where the amount of such assessable income has been determined on appeal, the assessment as made or agreed to or determined on appeal, as the case may be, shall be final and conclusive for all purposes of this Act, as regards the amount of such assessable income :

Assessments or amended assessments to be final.

Provided that nothing in this section shall be read and construed as preventing an Assessor or Assistant Commissioner from making, subject to the provisions of section 163, an assessment, or additional assessment for any year of assessment, which does not involve re opening any matter which has been determined on appeal for that year.

172. (1) Where in an assessment made in respect of any person the amount of the assessable income or taxable income exceeds the amount specified as his assessable income or taxable income in the return furnished by him under subsection (1) of section 106 or subsection (7) of section 106 and the assessment is final and

Penalty for incorrect return.

conclusive under section 171, the Commissioner-General may, unless that person proves to the satisfaction of the Commissioner-General that there is no fraud or wilful neglect involved in the disclosure of income or any claim for any deduction or relief made by that person in such return, in writing order that person to pay on or before a specified date, a sum not exceeding the aggregate of two thousand rupees and a sum equal to twice the tax on the amount of the excess as penalty for making an incorrect return.

(2) Any person in respect of whom an order is made under subsection (1) may, within twenty-one days after the notification of the order to him, appeal therefrom in writing to the Board of Review prior to April 1, 2011 or on or after April 1, 2011, to the Tax Appeals Commission. The appeal shall state precisely the grounds of objection to the order. *$ 34, 18 of 2013 w.e.f.01.04.2013*

(3) The provisions of section 169 shall as far as possible apply prior to April 1, 2011, to the hearing and disposal of any appeal under the preceding provisions of this section. The Board of Review prior to April 1, 2011 or after April 1, 2011, the Tax Appeals Commission, as the case may be, may confirm, reduce, increase or annul the penalty imposed by the order of the Commissioner-General from which the appeal is made, but any increase of such penalty shall not be in excess of the maximum amount which the Commissioner- General may impose, under subsection (1) as such penalty. *$ 34, 18 of 2013 w.e.f.01.04.2013*

(4) Where in respect of any person's return of income a penalty is imposed on that person under this section, he shall not be liable to prosecution for an offence relating to that return under paragraph (*a*) of subsection (4) of section 202 or under paragraph (*a*) of subsection (1) of section 204

CHAPTER XXV
TAX IN DEFAULT AND SUMS ADDED THERETO

173. (1) Where a quarterly instalment of a tax or a part of such instalment for any year of assessment is not paid on or before the date specified in subsection (1) section 113 for the payment of that instalment, such instalment of tax or part thereof, or where any tax or part thereof assessed by an Assessor or Assistant Commissioner for any year of assessment and required to be paid on or before the date specified in the notice of assessment (such date, in the case of any tax which is required to be paid under subsection (1) of section 113, being a date earlier than the date before which such tax or part thereof is required to be paid under that section) is not so paid, such tax or part thereof shall be deemed to be in default, and— Tax in default and sums added thereto.

(*a*) where such tax is payable by one person, such person; and

(*b*) where such tax is payable by more than one person or by a partnership, each of such persons or each partner in each partnership,

shall be deemed to be a defaulter for the purposes of this Act.

$ 21, 19 of 2009 w.e.f.01.04.2006

(2) Where the entirety of the tax or part of such tax payable by a company on or before the date specified for the payment of that tax in subsection (3) of section 113, is not so paid, such tax or part thereof shall be deemed to be in default and such company shall be deemed to be a defaulter for the purposes of this Act.

(3) Where any tax payable by any person for any year of assessment is in default, the defaulter shall in addition to the tax in default, pay —

(*a*) a penalty of a sum equivalent to ten per centum of such tax; and

(*b*) where such tax is not paid before the expiry of thirty days after it has begun to be in default, a further penalty of a sum equivalent to two *per centum* of the tax in default in respect of each further period of thirty days or part thereof, during which it remains in default:

Provided that—

(i) the total amount payable as a penalty under the preceding provision of this section shall in no case exceed fifty *per centum* of the tax in default;

(ii) where any person has paid as quarterly instalment of tax for any year of assessment a sum which is not less than one-quarter of the income tax payable by such person for the year immediately preceding that year of assessment, such person shall not be liable to any penalty in respect of such quarterly instalment of tax under the preceding provisions of this section, until the thirtieth day of September immediately succeeding the end of the year of assessment in respect of which such quarterly instalment of tax became due.

$ 38, 10 of 2007 w.e.f.30.03.2007

For the purposes of this paragraph "income tax":—

(A) in relation to a company for any year of assessment shall not include tax payable by that company, under paragraph (*b*) of subsection (1) of section 61, for that year of assessment ;

(B) in relation to any person, for any year of assessment means, the income tax which would have been payable by such person for the year preceding that year of assessment (hereinafter referred to as the "preceding year") had any profits and income, other than the net annual value of a residence and any subsidy exempt from income tax under this Act, which were exempt from income tax, under this Act or any other written law and in respect of which such exemption ceased in such preceding year, been taken into account in computing the assessable income of that person for that year of assessment;

$ 38, 10 of 2007 w.e.f.30.03.2007

(iii) the Commissioner-General may reduce or waive any penalty payable under this section, if it appears to the Commissioner-General that such reduction or waiver is just and equitable in all the circumstances ;

(iv) the Commissioner-General shall waive the penalty accrued on the tax for any year of assessment ending on or before March 31, 2005, and which remained unpaid as at October 1, 2005, if the entirety of such tax is paid in accordance with a scheme agreed to on or before December 31, 2007, with him in that behalf, within a period of not more than three years succeeding the date of such agreement. Where any such scheme so agreed to is not adhered to, the Commissioner- General shall, notwithstanding the provisions of the preceding paragraph, not reduce or waive such penalty.

(4) Notwithstanding the provisions of section 96B of the Inland Revenue Act, No. 4 of 1963, where any tax payable by any person for any year of assessment preceding the year of assessment commencing on April 1, 1979 is in default on or after April 1, 1981, the defaulter shall, in addition to the tax in default, pay as a penalty any sum payable as penalty in terms of subsection (6) of section 96B of the Inland Revenue Act, No. 4 of 1963 and a further sum equivalent to twenty five per centum of the amount in default on or after April 1, 1981.

(5) Where any assessment has been made on any person for any year of assessment by an Assessor or Assistant Commissioner, the amount of the tax as specified in the notice of assessment shall, for the purposes of subsection (3), be deemed to be the tax payable by that person for that year of assessment.

(6) Tax shall be paid notwithstanding any appeal against the assessment, unless the Commissioner-General orders that payment of tax or any part thereof be held over pending the determination of such appeal, and the amount of the tax or part thereof so held over shall not be deemed to be in default.

(7) Where the Commissioner-General is of the opinion either that the tax or any part thereof held over under subsection (6) is likely to become irrecoverable, or that the appellant is unreasonably delaying the prosecution of his appeal, he may revoke any order made under that subsection, and make such fresh order as the case may appear to him to require and the amount of any tax not paid on or before such date as may be specified in the fresh order, shall be deemed to be in default.

(8) Where, upon the final determination of an appeal under Chapter XXIII or upon any order made by the Commissioner- General, any tax which has been held over under subsection (6) becomes payable or tax charged by the original assessment is increased, the Commissioner-General shall give to the appellant a notice in writing, fixing a date on or before which any tax or balance tax shall be paid. Any tax not so paid shall be deemed to be in default.

(9) Notwithstanding anything in this section, where there is an appeal against an assessment and where the payment of any tax specified in the notice of assessment is held over on the order of the Commissioner-General, the Commissioner- General may, if the appellant agrees during the course of the inquiring into or hearing of that appeal, that a certain sum is due or is likely to be due as tax in respect of that assessment, by notice in writing given to the appellant, direct the appellant to pay such sum on or before such date as is specified in the notice. Any sum not so paid shall be deemed to be in default.

(10) Where upon the final determination of an appeal under Chapter XXIII, any tax in default to which any sum or sums has or have been added under subsection (3) is reduced, then such sum or sums shall be calculated on the tax as so reduced.

(11) Where any person liable to pay any tax satisfies the Commissioner-General on or before the date he is required to pay such tax or any instalment thereof, that he has made arrangements for the payments of such tax or instalments from any sum to be paid to him by the Government or from moneys lying to his credit in the National Savings Bank or from moneys to be paid to him from any person or provident fund approved by the Commissioner-General, the Commissioner- General may grant such person an extension of time for the payment of such tax or instalment, and such tax or instalment thereof shall not be deemed to be in default until the expiration of such extended time.

(12) Where any tax is due from the estate of a deceased person, and the executor of such deceased person satisfies the Commissioner-General on or before the date he is required to

pay such tax or any instalment thereof, that such tax or instalment cannot be paid on or before that date owing to probate or letters of administration not having been granted to him, such sum or instalment shall not be deemed to be in default if it is paid within a period of two months after the date of the grant of probate or letters of administration.

In this subsection, the expression, "executor" does not include any person who takes possession of or intermeddles with, the property of a deceased person.

(13) Where any tax held over by the Commissioner General becomes payable, either wholly or partly on settlement of the appeal, then any amount payable shall be recovered within one year from the date of settlement of the appeal, unless a case has been stated in relation to such appeal to the Court of Appeal under section 170;

(14) In this section, "tax" means income tax which is payable in respect of the profits and income of any person for any year of assessment, and the advance company tax payable for any year of assessment by a company in relation to any qualifying distribution.

Punishment for tax in default.

174. Where any person, including a director or a principal officer of a company or a partner of a partnership or a member or an office-bearer of an un-incorporated body, in respect of income tax payable by such person, including a company, partnership or other un-incorporated body respectively, has defaulted in the payment of such tax due and where such default continues for a period exceeding thirty six months, the Commissioner-General shall submit to the Magistrate a certificate containing relevant particulars, including the amount of tax in default, the period of default and accrued penalty and interest. Such person including a director, principal officer, partner, a member or an office-bearer, as the case may be, shall be liable, on conviction after summary trial before a Magistrate, to a period of imprisonment of either description not exceeding three months:

Provided that in case of a director or a principal officer of a company, the Magistrate may allow such person to show cause that he is not responsible for such default or that he has taken all necessary steps within his power to avoid the nonpayment of such tax.

CHAPTER XXVI
RECOVERY OF TAX

Tax to include fines etc.

175. In this Chapter, "tax" includes–

(a) income tax, charged and levied under this Act;

(*b*) any income tax, wealth tax or gifts tax charged and levied under the Inland Revenue Act, No. 28 of 1979 and which was in default or went into default on or after April 1, 2000; *$ 39, 10 of 2007 w.e.f.30.03.2007*

(*bb*) any income tax charged and levied under the Inland Revenue Act, No. 38 of 2000 and which was in default or goes into default on or after April 1, 2006 ; *$ 39, 10 of 2007 w.e.f.30.03.2007*

(*c*) any income tax which an employer is required to pay under the provisions of Chapter XIV;

(*d*) the whole or any part of any quarterly instalment of income tax referred to in section 97 of the Inland Revenue Act, No. 28 of 1979 or in section 165 of the Inland Revenue Act, No. 38 of 2000, or in section 113 of this Act and which any person is liable to pay for any year of assessment; *$ 39, 10 of 2007 w.e.f.30.03.2007*

(*e*) any advance company tax which a company was required to pay under the Inland Revenue Act, No. 28 of 1979 or the Inland Revenue Act, No. 38 of 2000, *$ 39, 10 of 2007 w.e.f.30.03.2007*

and any sums added to any such tax by reason of default, any sum or sums added to such income tax under section 173 of this Act or section 144 of the Inland Revenue Act, No. 38 of 2000 or to income tax, wealth tax or gifts tax under subsection (2) or (2A) of section 125 of Inland Revenue Act, No. 28 of 1979 or under subsection (6) of section 96B of the Inland Revenue Act, No. 4 of 1963, and any fines, penalties, fees or costs whatsoever incurred under this Act or the Inland Revenue Act, No. 38 of 2000 or Inland Revenue Act, No. 28 of 1979 or the Inland Revenue Act, No. 4 of 1963.

176. (1) Save as provided in subsection (2), tax in default shall be a first charge upon all the assets of the defaulter: Tax to be a first charge.

Provided that—

(*a*) such charge shall not extend to or affect any assets sold by the defaulter to a *bona fide* purchaser for value prior to the seizure of the same in accordance with the provisions of section 178;

(*b*) as regards immovable property, the tax shall not rank in priority to any lease or encumbrance created bona fide for value and registered prior to the date of *seizure* of the property under section 178; and

(*c*) as regards movable property, where tax for more than one year of assessment is in default, the tax for one year only to be selected by the Commissioner- General, shall rank in

priority to any lien or encumbrance created *bona fide* for value prior to the date of default.

$ 40, 8 of 2014 w.e.f.1.4.2014

(2) A receiver shall pay out of the assets under his control, the tax charged or chargeable for five complete years of assessment prior to the date of the insolvency, bankruptcy, or liquidation to be selected by the Commissioner-General as a first charge on such assets, and any other tax charged or chargeable for periods prior to such date shall be an unsecured debt:

Provided that where the receiver proves to the satisfaction of the Commissioner-General that any tax in default which he is liable to pay is excessive, the Commissioner-General may, notwithstanding the provisions of section 171, review the assessment in respect of which the tax is charged and make such adjustments as may appear to him to be just and equitable in all the circumstances of the case.

177. Notice to defaulter.

(1) Before taking proceedings to recover any tax in default in any manner hereinafter provided, the Commissioner-General shall subject to the provisions of subsection (2), issue notice in writing to the defaulter stating–

(*a*) the particulars of such tax; and

(*b*) that action is being contemplated to recover such tax.

(2) Where the Commissioner-General is satisfied that compliance with the procedure set out in subsection (1) for the recovery of any tax in default is inexpedient and that immediate action is necessary for the recovery of such tax, he may take proceedings to recover such tax without issuing a notice to the defaulter as required by that subsection. Where the Commissioner-General takes proceedings under this subsection to recover any tax in default, he shall, within fourteen days of the date on which he takes such proceedings, issue a notice to the defaulter stating the particulars of the tax in respect of which such proceedings have been taken, and the nature of such proceedings.

(3) If such defaulter has not appealed within the proper time against the assessment or assessments in respect of which such tax is charged, he may, within thirty days of the notice issued under subsection (1) or subsection (2), make any objection to the tax so charged and the Commissioner-General shall, notwithstanding the provisions of section 171, consider such objection and give his decision thereon which shall be final:

Provided that where the Commissioner-General is satisfied that owing to illness, absence from Sri Lanka or other reasonable cause, the defaulter was prevented from objecting within thirty

days of the notice issued under subsection (1) or subsection (2), he shall grant an extension of time for preferring such objections.

(4) Where the tax recovered as a result of any proceedings taken under subsection (2) is in excess of the amount of tax determined under subsection (3) to be payable by the defaulter in respect of any year of assessment, such excess shall, notwithstanding anything in section 200, be refunded to the defaulter :

Provided that no refund under this subsection shall exceed the tax recovered as a result of proceedings taken under subsection (2).

177A. (1) Where a body corporate has not paid any tax on or before the due date, as required under section 113, it shall be lawful for the Commissioner-General to proceed under all or any of the provisions of this Act against the manager, secretary, any director or any other principal officer of such body corporate, as if such manager, secretary, director of principal officer, as the case may be, is responsible for such default, unless such manager, secretary, director or principal officer, as the case may be, proves the contrary to the satisfaction of the Commissioner - General, notwithstanding anything in any other written law relating to such body corporate.

Recovery of tax from principal officers and others.
$ 46,22 of 2011 w.e.f.01.04.2011

(2) Where an unincorporated body of persons has not paid any tax on or before the due date, as required under section 113, it shall be lawful for the Commissioner - General to proceed under all or any of the provisions of this Act against any partner or office - bearer of such unincorporated body of persons as if he is responsible for such default, unless such partner of office bearer, as the case may be, proves the contrary to the satisfaction of the Commissioner General, notwithstanding anything in any other written law.

178. (1) The Commissioner-General may appoint persons to be tax collectors.

Recovery of tax by seizure and sale.

(2) (*a*) Where any tax is in default, the Commissioner- General may issue a certificate to a Government Agent, Assistant Government Agent, Fiscal, Deputy Fiscal or tax collector, containing particulars of such tax and the name of the defaulter and the officer to whom such certificate is issued shall be empowered and is hereby required, to cause the tax to be recovered from the defaulter named in the certificate by seizure and sale of his movable property.

(*b*) A seizure of movable property shall be effected in such manner as such officer shall deem most expedient in that behalf, and as soon as any movable property is seized by

such officer, a list of such property shall forthwith be made and signed by him and shall be given to the defaulter and a copy thereof furnished to the Commissioner-General.

(*c*) Where the property so seized is——

(i) cash in Sri Lanka currency, such cash shall be first applied in the payment of the cost and charges of seizing and any balance applied in satisfaction of the tax in default;

(ii) cash in foreign currency, such cash shall be deposited in the Central Bank or any commercial bank and the proceeds therefrom applied in the payment of the costs and charges of seizing and any balance applied in satisfaction of the tax in default; and

(iii) property other than cash, such property shall be kept for five days at the cost and charges of the defaulter. If the defaulter does not pay the tax in default together with the costs and charges within the five days, the Government Agent, Assistant Government Agent, Fiscal, Deputy Fiscal or tax collector shall cause such property to be sold by public auction, or where such property is a negotiable instrument or a share in any corporation or public company, to be sold through a broker at the market rate of the day.

(*d*) The sum realized by a sale referred in sub-paragraph (iii) of paragraph (*c*) shall be applied–

(i) firstly, in payment of the costs and charges of seizing, keeping and selling the property; and

(ii) secondly, in satisfaction of the tax in default, and any balance shall be paid to the owner of the property seized.

(*e*) It shall be lawful for any officer to recover from any defaulter, reasonable expenses incurred by him in proceeding against such defaulter under this section, notwithstanding that no seizure of property was effected.

(*f*) In this subsection the expression "movable property" includes any plant or machinery affixed to the ground of a factory.

(3) Where any tax is in default and the Commissioner- General is of the opinion that the recovery by the means provided in subsection (2) is impracticable or inexpedient, he may issue a certificate to a District Court having jurisdiction in any district where the defaulter resides or in which any property, movable or immovable, owned by the defaulter is situate, containing

particulars of such tax and the name or names of the person or persons by whom the tax is payable, and the courts shall thereupon direct a writ of execution to issue to the Fiscal, authorizing and requiring him to seize and sell all and any of the property, movable or immovable, of the defaulter, or such part thereof as he may deem necessary for recovery of the tax, and the provisions of sections 226 to 297 of the Civil Procedure Code shall, *mutatis mutandis*, apply to such seizure and sale.

(4) Whenever the Commissioner-General issues a certificate under this section, he shall at the same time issue to the defaulter, whether resident or non-resident, a notification thereof by personal service, registered letter sent through the post or telegraph; but the non- receipt of such notification by the defaulter shall not invalidate proceedings under this section.

Proceedings for recovery before Magistrate.

179. (1) Where the Commissioner-General is of opinion in any case that recovery of tax in default by seizure and sale is impracticable or inexpedient, or where the full amount of the tax has not been recovered by seizure and sale, he may issue a certificate containing particulars of such tax and the name and last known place of business or residence of the defaulter to a Magistrate having jurisdiction in the division in which such place is situate. The Magistrate shall thereupon summon such defaulter before him to show cause why further proceedings for the recovery of the tax should not be taken against him, and in default of sufficient cause being shown the tax in default shall be deemed to be a fine imposed by a sentence of the Magistrate on such defaulter for an offence punishable with fine only or not punishable with imprisonment, and the provisions of subsection (1) of section 291 (except paragraph (*a*), (*d*) and *(i)* thereof of the Code of Criminal Procedure Act, No. 15 of 1979 relating to default of payment of a fine imposed for such an offence shall thereupon apply, and the Magistrate may make any direction which, by the provisions of that subsection, he could have made at the time of imposing such sentence.

(2) The correctness of any statement in a certificate issued by the Commissioner-General for the purposes of subsection (1), shall not be called in question or examined by the Magistrate in any proceeding under this section and accordingly, nothing in that subsection shall be read and construed as authorizing a Magistrate to consider, or decide the correctness of any statement in such certificate or to postpone or defer such proceeding for a period exceeding thirty days, by reason only of the fact that an appeal is pending against the assessment in respect of which the tax in default is charged.

(3) Nothing in subsections (2) to (5) of section 291 of the Code of Criminal Procedure Act, No. 15 of 1979, shall apply in any case referred to in subsection (1) of this section.

(4) In any case referred to in subsection (1) in which the defaulter is sentenced to imprisonment in default of payment of the fine deemed by that subsection to have been imposed on him, the Magistrate may allow time for the payment of the amount of that fine or direct payment of that amount to be made in instalments.

(5) The Court may require bail to be given as a condition precedent to allowing time under subsection (1) for showing cause as therein provided, or under subsection (4) for the payment of the fine; and the provisions of Chapter XXXIV of the Code of Criminal Procedure Act, No. 15 of 1979, shall apply, where the defaulter is so required to give bail.

(6) Where a Magistrate directs under subsection (4) that payment be made in instalments and default is made in the payment of any one instalment, proceedings may be taken as if default had been made in payment of all the instalments then remaining unpaid.

(7) In any proceeding under subsection (1), the Commissioner-General's certificate shall be sufficient evidence that the tax has been duly assessed and is in default, and any plea that the tax is excessive, incorrect, or under appeal, shall not be entertained.

Recovery of tax out of debts & c.

180. (1) Where tax payable by any person is in default and it appears to the Commissioner-General to be probable that any other person—

(*a*) owes or is about to pay money to the defaulter or his agent;

(*b*) holds money for or on account of the defaulter or his agent;

(*c*) holds money on account of some other person for payment to the defaulter or his agent; or

(*d*) has authority from some other person to pay money to the defaulter or his agent,

the Commissioner-General may give to such other person notice in writing (a copy of which shall be sent by post to the defaulter) requiring him to pay any such moneys not exceeding the amount of the tax in default, to the officer named in such notice. The notice shall apply to all such moneys which are in his hands or due from him at the date of receipt of such notice, or come into his hands or become due from him or are about to be paid by him at any time within a period of three months, after the date of such notice.

(2) Where a person holds money for or on account of the defaulter and any other person or persons jointly (in this section referred to

as the "joint account holder or holder") the Commissioner-General may give a notice under subsection (1) to such person, requiring him to pay the amount of the tax in default or part thereof to the officer named in such notice, out of the monies or such part of such moneys in the joint account which the Commissioner-General is satisfied is attributable to the contributions made by the defaulter, and is so certified by the Commissioner-General:

Provided that—

(*a*) every person remitting money in compliance with a notice issued under subsection (1), shall intimate such fact to every other joint account holder;

(*b*) every joint account holder other than the defaulter may, within two weeks of the date on which he received an intimation under paragraph (a), make a claim to the Commissioner-General in respect of any part of such remittance which represents his net contribution to the balance in such joint account as at the date of notice issued by the Commissioner- General, and the Commissioner-General shall consider such claim and make his order thereon;

(*c*) every joint account holder who is aggrieved by the order of the Commissioner-General made under paragraph (*b*), may institute an action in the District Court seeking an order for the recovery of such money or part of money which he claims to be attributable to the contributions made by him.

Notwithstanding any provision in the Prescription Ordinance (Chapter 68), no action shall be instituted for the recovery of such money or part of such money after the expiration of three months from the date of notice issued by the Commissioner-General.

(3) Any person who has made any payment in pursuance of this section shall be deemed to have acted under the authority of the defaulter, and of all other persons concerned, and is hereby indemnified in respect of such payment against all proceedings, civil or criminal, notwithstanding the provisions of any written law, contract or agreement.

(4) Any person to whom a notice has been given under subsection (1), who is unable to comply therewith owing to the fact that the moneys referred to in that subsection do not come into his hands or that no such moneys become due from him within the period referred to in that subsection, shall within fourteen days of expiration thereof, give notice in writing to the Commissioner-General apprising him of the facts.

(5) Where any person to whom a notice has been given under subsection (1) is unable to comply therewith and has failed to give notice to the Commissioner-General as provided in subsection (4), or where such person has deducted or could have deducted the tax to which the notice relates or any part thereof, and has not paid over as required by the Commissioner-General the amount of such tax or part thereof within fourteen days after the expiration of the period referred to in subsection (1), such person shall, if he is an individual be liable, or where such person is a company or body of persons whether corporate or unincorporate, the secretary, manager or other principal officer of such company or body shall be personally liable, for the whole of the tax which such person has been required to deduct, and such tax may be recovered from such individual, secretary, manager or other principal officer, as the case may be, by all means provided in this Act.

(6) For the purposes of this section, the expression "defaulter" shall be deemed to include the agent of a person who is in default and the provisions of this section shall apply in any case where the tax which would have been payable by any person if he were alive is in default; and for the purposes of the application of those provisions in any such case, the expression "defaulter" in subsection (1) means—

(*a*) the executor or administrator of a deceased person;

(*b*) any person who takes possession of or intermeddles with, the property of a deceased person; or

(*c*) any person who has applied or is entitled to apply to a District Court for the grant or resealing of a probate or letters of administration, in respect of the estate of a deceased person.

181. Transfer of immovable property to Government in lieu of payment of tax in cash.

(1) Any person liable to pay any tax under the provisions of this Act or of the Inland Revenue Act, No 38 of 2000 or of the Inland Revenue Act, No. 28 of 1979 or of the Inland Revenue Act, No.4 of 1963, may apply to the Commissioner-General to transfer any immovable property owned by such person to the Government, in lieu of payment of such tax in cash at such value as is placed on such property by agreement between such person and the Commissioner-General, and the Commissioner-General may allow such application having regard to the feasibility of managing such property after it is transferred to the Government.

(2) Where the Commissioner-General allows an application made under subsection (1) and the amount agreed to in accordance with the provisions of that subsection as the value of the property in respect of which the application is made, exceeds the amount of the tax payable by the applicant, the excess shall be deemed to

be a donation within the meaning of paragraph (*b*) of subsection (2) of section 34, made to the Government of Sri Lanka by the applicant.

182. (1) The Commissioner- General may, by notice in writing given to any employer of an employee or to the person responsible for the payment of remuneration of an employee, direct such employer or person to deduct during such period as may be specified in such notice, from the remuneration of such employee, the amount of tax which is payable by such employee and which is in default, in such number of monthly instalments as may be specified in such notice, The amount so deducted each month from the remuneration of an employee shall be paid to the Commissioner-General by such employer or such person, as the case may be.

Tax in default to be Recovered from Remuneration of employee.

(2) Where any tax is deducted under subsection (1) from the remuneration of an employee by his employer or by the person responsible for the payment of such remuneration, such employee shall for the purposes of this Act, be deemed to have paid such tax or part thereof on the date on which the deduction is made.

(3) The Commissioner-General may at any time after he has made a direction under subsection (1), withdraw such direction wholly or partly by notice given in writing to the employer or the person responsible for the payment of the remuneration of the employee, if the employee has made arrangements to the satisfaction of the Commissioner-General, for the payment of his tax in default.

(4) Where any employee from whose remuneration any tax is to be deducted under the preceding provisions of this section by his employer or the person responsible for the payment of such remuneration, is about to leave or leaves his employment, the employer or such person shall deduct the whole amount of such tax or any balance thereof which he has been directed to deduct by the notice given to him by the Commissioner-General, from all or any payments payable by him to such employee, after he becomes aware that such employee is leaving, or has left, his employment.

(5) Where a direction for the deduction of any tax from the remuneration of an employee is given under subsection (1) to his employer or to the person responsible for the payment of such remuneration, and such employer or person is unable to deduct the whole or any part of such tax for the reason that such employee has left his employment or for any other reason, such employer or person shall forthwith give notice in writing to the Commissioner-General apprising him of the facts of the matter, and any tax which such employer or person has not deducted or

cannot deduct, shall immediately become payable by the employee.

(6) Where the employer or the person responsible for the payment of remuneration to an employee has failed to deduct from such remuneration any tax which he has been directed to deduct under subsection (1), and such employer or person has failed to give notice to the Commissioner-General as required by subsection (5) within fourteen days of the date on which such deduction should have been made, or where such employer or person has deducted or could have deducted tax in any month from such remuneration in accordance with a direction under subsection (1) but has not paid the amount of such tax to the Commissioner-General by the fifteenth day of the following month, such employer or person, if he is an individual, shall be liable, or where such employer or person is a company or a body of persons, whether corporate or unincorporate, the secretary, manager or other principal officer of such company or body shall be personally liable, for the whole of the tax which such employer or such person has been directed to deduct under this section, and such tax may be recovered from such individual, secretary, manager or other principal officer by all means provided in this Act, and such tax shall be deemed to be in default.

(7) Every employer or other person who deducts tax from the remuneration of any employee in accordance with a direction under subsection (1) ,shall on request made by such employee, issue to him a certificate in such form as is specified by the Commissioner-General, of the amount of tax deducted.

Tax in default of partner to be recovered from the assets of a partnership.

183. Where for any year of assessment the statutory income of any person who is a partner in a partnership includes his share of the divisible profits of a partnership and the tax payable by that person is in default, such part of the tax in default as is, in the opinion of the Commissioner-General, attributable to his share of such divisible profits may be recovered out of the assets of the partnership, and accordingly, for the purposes of section 178, the assets of the partnership shall be deemed to be the assets of the partner:

Provided that the amount so recovered shall not exceed the interest of the partner in the partnership.

Recovery of income tax from the income of a child.

184. Where the total statutory income of a child is aggregated with and deemed to form part of the total statutory income of parent of such child, and where any tax cannot be collected from that parent, such portion of such tax as appears to the Commissioner-General to be attributable to the income of such child, may be recovered from such child, notwithstanding that no assessment has been made upon such child and the provisions of this Act as to collection and recovery of tax, shall apply accordingly.

185. The income tax or any part thereof with which a beneficiary to a trust, not being any unit trust, is chargeable in respect of his income to which he is entitled from the trust, may be recovered from the trustee of the trust, notwithstanding that no assessments have been made upon the trustee, and the provisions of this Act relating to collection and recovery of tax shall apply to such trustee. Such trustee shall be entitled to deduct the amount of such tax or part thereof, from the income which will be payable to such beneficiary from the trust.

Recovery of income tax payable by a Beneficiary from the trustee.

186. The income tax or any part thereof with which a beneficiary is chargeable in respect of his income to which he is entitled from the estate of a deceased person, may, notwithstanding that no assessment has been made upon the executor of the deceased person, be recovered from such executor, and accordingly, the provisions of this Act as to collection and recovery of tax shall apply to such executor. Such executor shall be entitled to deduct the amount of such tax or part thereof from the income which will be payable to such beneficiary from the estate of such deceased person.

Recovery of income tax payable by a beneficiary from the executor.

187. Where the gifts tax charged under Chapter XI of the Inland Revenue Act No. 28 of 1979 cannot be recovered from the donor, it may be recovered from the donee, notwithstanding that no assessment has been made upon the donee, and the provisions of this Act as to collection and recovery of tax shall apply accordingly:

Gift tax to be recovered from the donee in certain circumstances.

Provided that the amount which may be recovered from the donee shall not exceed that portion of such tax which appears to the Commissioner-General to be attributable to the value of the gift made to the donee by the donor, as at the date of the gift.

188. (1) Where the Commissioner-General is of opinion that any person who is a defaulter is about to or likely to leave Sri Lanka without paying all income tax, wealth tax or gift tax, which have become default as assessed upon him or otherwise, he may issue a certificate containing particulars of such tax and the name of such person to a Magistrate, who shall on receipt thereof issue a direction to the Inspector- General of Police to take such measures as may be necessary to prevent such person from leaving Sri Lanka without paying the tax or furnishing security to the satisfaction of the Commissioner-General, for payment thereof.

Recovery of tax from persons leaving Sri Lanka.

(2) At the time of issue of his certificate to the Magistrate, the Commissioner-General shall issue to such person a notification thereof by personal service, registered letter sent through the post or telegraph, but the non-receipt of any such notification by such person shall not invalidate proceedings under this section.

(3) The production of a certificate signed by the Commissioner-General or a Deputy Commissioner, stating that the tax has been paid or that security has been furnished to the payment of the tax,

or payment of the tax to a police officer in charge of a police station, shall be sufficient authority for allowing such person to leave Sri Lanka. Any police officer to whom the amount of any tax has been paid shall forthwith pay such amount to the Commissioner-General.

189. Where the Commissioner-General is of the opinion that the application of any of the provisions of this Chapter has failed or is likely to fail to secure payment of the whole of any tax due under this Act from any person, it shall be lawful for him to proceed to recover any sum remaining unpaid by any other means of recovery provided in this Chapter, notwithstanding that an order has been made by a Magistrate under section 179 in respect of that person and carried into effect.

Use of more than one means of recovery.

190. The Commissioner-General may by notice given in writing to any person, require that person within the period specified in such notice, to furnish any information which the Commissioner-General may require for the purpose of recovering any tax, due from such person or any other person.

Power of Commissioner-General to obtain information for the recovery of tax

191. (1) Notwithstanding anything in the Companies Act, No. 7 of 2007 where any private company is wound up and where any income tax to which that company is liable cannot be recovered, then, every person who was a director of the company at any time during the year of assessment in respect of which such tax is payable, shall be jointly and severally liable for the payment of such tax, unless he proves that the default in payment of tax cannot be attributed to any gross neglect, misfeasance or breach of duty on his part in relation to the affairs of the company.

Liability of directors of private company in liquidation.
$ 25, 8 of 2012

(2) In this section the expression "private company" has the same meaning as in the Companies Act, No. 7 of 2007.

192. (1) The Commissioner-General may by writing under his hand, delegate to any Assessor or Assistant Commissioner any of the powers or function conferred on or assigned to the Commissioner- General by this Chapter.

Delegation of Commissioner-General's powers and functions.

(2) Every Assessor or Assistant Commissioner to whom any power or function has been delegated under subsection (1), shall exercise or discharge that power or function subject to the general or special directions of the Commissioner-General.

193. The Commissioner General shall not, subject to the provisions of section 4 of the Inland Revenue (Regulations of Amnesty) Act No.10 of 2004, commence any action under sections 178, 179, 180, 181, or 182 of this Act for the recovery of tax in default, after the expiry of five years from the end of the year of assessment in which the assessment by which such tax was charged or levied becomes final and conclusive under section 171 .

Action not to commence after expiry of five years in certain circumstances.

CHAPTER XXVII
MISCELLANEOUS

Signature and service of notice.

194. **(**1) Every notice to be given by the Commissioner- General, a Deputy Commissioner, or an Assessor or Assistant Commissioner under this Act, shall bear the name of the Commissioner-General or Commissioner or Assessor or Assistant Commissioner, as the case may be, and every such notice shall be valid if the name of the Commissioner-General, Deputy Commissioner, or Assessor or Assistant Commissioner is duly printed or signed thereon.

(2) Every notice given by virtue of this Act may be served on a person either personally or by being delivered at, or sent by post to, his last known place of abode or any place at which he is, or was during the year to which the notice relates, carrying on business:

Provided that a notice of assessment under section 163 shall be served personally or by registered letter sent through the post to any such place as aforesaid.

(3) Any notice sent by post shall be deemed to have been served on the day succeeding the day on which it would have been received in the ordinary course by post.

(4) In proving service by post, it shall be sufficient to prove that the letter containing the notice was duly addressed and posted.

(5) Every name printed or signed on any notice or signed on any certificate given or issued for the purposes of this Act, which purports to be the name of the person authorized to give or issue the same, shall be judicially noticed.

Validity of notices, assessments etc.

195. (1) No notice, assessment, certificate, or other proceeding purporting to be in accordance with the provisions of this Act shall be quashed, or deemed to be void or voidable for want of form or be affected by reason of a mistake, defect or omission therein, if the same is in substance and effect in conformity with, or according to the intent and meaning of this Act, and if the person assessed or intended to be assessed or affected thereby, is designated therein according to common intent and understanding.

(2) Without prejudice to the generality of subsection (1), an assessment shall not be affected or impugned by reason of—

(*a*) a mistake as to the name or surname of the person chargeable, the amount of income assessed, or the amount of tax charged; or

(*b*) any variance between the assessment and the notice thereof,

if the notice of such assessment is duly served on the person intended to be charged and contains in substance and effect the particulars mentioned in paragraph (*a*) of this subsection.

(3) Without prejudice to the generality of subsection (1) and subsection (2), no notice, assessment, certificate, or other proceeding purporting to be in accordance with the provisions of this Act shall be quashed, or deemed to be void or voidable or be affected by reason of any variance in the designation of the officer who signed or executed such notice, assessment, certificate or other proceeding as the case may be, due to the implementation of the Minutes of the Sri Lanka Inland Revenue Service as published in the *Gazette*, if the same is in substance and effect in conformity with, or according to, the intent and meaning of this Act or any other Act administered by the Commissioner-General, and if the person assessed or intended to be assessed or affected thereby, is designated therein according to common intent and understanding.

$ 41,8 of 2014 w.e.f.01.04.2014

196. (1) Wherever two or more persons in partnership act in the capacity of trustees or executors or as agents or are employers, or are persons in receipt of money, value or profits to whom section 109 applies, or act in any other capacity whatever, either on behalf of themselves or of any other person, the precedent partner of such partnership shall be liable to do all such acts, matters and things as are required to be done under the provisions of this Act by an individual acting in any such capacity:

Precedent partner to act on behalf of a partnership.

Provided that any person to whom a notice has been given under the provisions of this Act as precedent partner of a partnership, shall be deemed to be the precedent partner thereof, unless he proves that he is not a partner in such partnership, or that some other person resident in Sri Lanka is the precedent partner thereof.

(2) Where two or more persons who are not in partnership act jointly in any capacity mentioned in subsection (1), they shall be jointly and severally liable to do all such acts, matters and things as are required to be done under the provisions of this Act, by an individual acting in any such capacity.

197. (1) The secretary, manager, director or other principal officer of every company or body of persons, corporate or unincorporate, shall be liable to do all such acts, matters, or things as are required to be done under the provisions of this Act, by such company or body of persons:

Principal officer to act on behalf of company or body of persons.

Provided that any person to whom a notice has been given under the provisions of this Act on behalf of a company or body of persons, shall be deemed to be the principal officer thereof,

unless he proves that he has no connection with that company or body of persons or that some other person resident in Sri Lanka is the principal officer thereof.

(2) Where an offence under this Act is committed by a company or body of persons, corporate or unincorporate, every person who at the time of the commission of that offence was the secretary, manager, director or other principal officer of that company or body of persons, shall be deemed to be guilty of that offence, unless he proves that the offence was committed without his knowledge and that he exercised all such diligence to prevent the commission of that offence as he ought to have exercised, having regard to the nature of his functions in such capacity and to all the other circumstances.

Who may act for Incapacitated or non-resident person.

198. Any act or thing required by or under this Act to be done by any person shall, if such person is an incapacitated or non-resident person, be deemed to be required to be done by the trustees of such incapacitated person or by the agent of such non-resident person, as the case may be.

Indemnification of representative.

199. (1) Every person chargeable with tax under this Act as trustee, executor, or agent, or from whom such tax is recoverable in respect of the income or wealth of another person, may retain out of any assets coming into his possession or control on behalf of such other person or in his capacity as trustee, executor, or agent, such portion of such assets as shall be sufficient to pay the amount of such tax, and he shall be and is hereby indemnified against any person whomsoever, in respect of his retention of such assets and payment of such amount.

(2) Where any person acting as trustee or executor has paid tax, and no assets of the trust or estate come into his possession or control out of which he could retain the tax so paid, such tax shall be a debt due from the beneficiaries of the trust or estate, to the trustee or executor.

(3) Where a person chargeable with tax or from whom tax is recoverable in respect of the income of another person, pays such tax, and no assets of such other person come into his possession or control out of which he could retain the amount of the tax so paid, such tax shall be a debt due to him from such other person.

CHAPTER XXVIII
REPAYMENT

Tax paid in excess to be refunded.

200. (1) If it is proved to the satisfaction of the Commissioner-General by any claim duly made in writing within three years of the end of a year of assessment, that any person has paid any income tax, by deduction or otherwise, in excess of the amount which he was

liable to pay for that year, such person shall be entitled to a refund of the amount paid in excess:

Provided that—

(*a*) nothing in this section shall operate to extend or reduce any time limit for appeal or repayment specified in any other section or to validate any objection or appeal which is otherwise invalid, or to authorize the revision of any assessment or other matter which has become final and conclusive;

(*b*) where any person has paid income tax by deduction in respect of a dividend in accordance with section 65 or in respect of interest, rent, ground rent, royalty, or other annual payment in accordance with section 95, he shall not be entitled by virtue of this section to any relief greater than that he would be entitled to under subsection (3), (4) or under subsection (5) of section 65 or subsection (3) of section 95; and

(*c*) where the Commissioner-General is satisfied that a person who has paid any income tax, by deduction could not have made a claim within the aforesaid three years, such person shall be entitled to a refund of the amount paid in excess, if such claim is made within one year from the end of the year of assessment in which such deduction was made.

(2) Where through death, incapacity, bankruptcy, liquidation or other cause, a person who would but for such cause have been entitled to make a claim under subsection (1), is unable to do so, his executor, trustee or receiver, as the case may be, shall be entitled to a refund of any tax paid in excess within the meaning of subsection (1) by such person, for the benefit of such person or his estate.

(3) Where it is proved to the satisfaction of the Commissioner-General by claim made in writing within three years of the end of a year of assessment, that any person has paid income tax in excess of the amount which he was liable to pay for that year of assessment and that the excess is due to any error in the assessment or the return of the income of that person (other than an error in the application or construction of any provision of this Act in the making or revision of the assessment), such person shall be entitled to a refund of the amount paid in excess.

(4) Where it is proved to the satisfaction of the Commissioner-General by claim made in writing, that any person has paid the amount of any penalty referred to in subsection (3) of section

173 which is in excess of the sum which he should have paid if such sum were calculated in accordance with the provisions of subsection (8) of section 173, such person shall be entitled to a refund of the amount paid in excess, if such claim is made within three years of the end of the year of assessment in which the amount of the penalty referred to in the aforesaid subsection (3) of section 173 was paid.

(5) Where it is proved to the satisfaction of the Commissioner-General by a claim made in writing by any employer within three years of the end of a year of assessment, that he has paid to the Commissioner-General under the provisions of Chapter XIV for that year of assessment, a sum in excess of the amount which he should have paid for that year of assessment, such employer shall be entitled to a refund of the amount paid in excess:

Provided that the preceding provisions of this subsection shall not apply where payment of income tax has been made on as assessment made on an employer under section 125.

(6) Notwithstanding anything to the contrary in section 63 and section 61, any tax deducted in accordance with section 65 in respect of a dividend paid by a resident company to a non-resident shareholder, in excess of the rate of tax on dividends specified in an agreement referred to in subsection (1) of section 97, between the Government of Sri Lanka and the Government of the country in which such shareholder is resident, shall be refunded to such shareholder on a claim duly made in writing, within three years of the end of the year in which such tax was deducted or within one year of the date on which such agreement comes into force, whichever is later.

(7) Notwithstanding anything to the contrary in section 63, any tax deducted in accordance with section 65 in respect of a dividend distributed and paid by a resident company to any person whose profits and income are exempt from income tax under paragraph (*a*) section 7, shall be refunded to such person on a claim duly made by him in writing, within three years of the end of the year of assessment in which such tax was deducted. *$ 40, 10 of 2007 w.e.f.30.03.2007*

(8) Nothing in the preceding provisions of this section shall apply in relation to the income tax paid by deduction or otherwise, by any person for any year of assessment in respect of the whole or any part of his income, if such income is not included in his assessable income for that year of assessment**.** *$ 22, 19 of 2009 w.e.f.31.03.2009*

(9) Any refund arising to any person, as provided for in this section, shall be credited directly to a bank account of such person. *$ 47,22 of 2011 w.e.f.01.04.2011*

201. Where for any year of assessment any person is entitled to a refund of the amount of any income tax, paid by him by deduction or otherwise, and where such amount has not been refunded to him by the Commissioner-General— Interest payable on the amount of a refund in certain circumstances.

(*a*) if such refund arises in consequence of the reduction of the amount of an assessment on agreement with an Assessor or Assistant Commissioner under subsection (7) of section 165 or on the determination of an appeal in respect of such assessment, within a period of six months from the date of such agreement or from the date on which such determination was communicated to such person ; or

(*b*) in any other case, within a period of six months from the date on which a claim in writing was made by such person to the Commissioner-General for such refund, or from the thirty-first-day of March of that year of assessment, whichever is the later date,

such person shall be entitled to interest on the amount of the refund which remains unpaid, calculated at the rate of one *per centum* for each complete period of one month for which such amount remains unpaid after the period of six months referred to in paragraph (*a*) or (*b*).

CHAPTER XXIX
PENALTIES AND OFFENCES

202. (1) Every person who fails to— Penalties for failure to make returns making incorrect returns &c.

(*a*) comply with the requirements of a notice given to him under subsection (1) of section 70 or subsection (1) of section 73 or subsection (4) of section 76 or subsection (1) of section 95 or subsection (7) of section 106 or subsection (12) of section 106 or subsection (13) of section 106 or subsection (14) of section 106 or subsection (1) of section 107 or section 109 or section 110 or section 111 or section 190;

(*b*) comply with a requirement imposed on him by the Commissioner-General under sub-paragraph (ii) of subsection (1) of section 112;

(*c*) attend in response to a notice given to him under subsection (13) of section 106 or subsection (14) of section 106 or subsection (9) of section 165 or subsection (7) of section 169 or having attended in response to any such notice, fails without sufficient cause to answer any questions lawfully put to him ; or

(*d*) comply with the requirements subsection (3) of section 70 or subsection (3) of section 73 or subsection (4) of section 76 or subsections (1), (2), (3) or (4) of section 106 or subsection (1) of section 107 or section 108 or subsection (2) of section 176 or subsection (7) of section 182,

shall be guilty of an offence under this Act and shall be liable on conviction after summary trial before a Magistrate, in the case of a failure to comply with subsection (1) of section 106 or with the requirement of a notice given under subsection (7) of section 106, to a fine not exceeding fifty thousand rupees and in any other case, to a fine not exceeding seven thousand five hundred rupees.

(2) Every person who, being an employer for the purpose of Chapter XIV, fails to—

(*a*) give notice to the Commissioner-General in terms of subsection (1) of section 115 or subsection (2) of section 115;

(b) deduct the whole or any part of the income tax required to be deducted under the provisions of subsection (1) of section 114; or

(*c*) comply with the requirements of subsection (1) of section 112 or subsection (2) of section 118 or paragraphs (*a*), (*b*) or *(c)* of section 119 or paragraph (*a*), (*b*), (*c*), (*d*) or (*e*) of section 120 or subsection (7) of section 133,

shall be guilty of an offence under this Act and shall be liable on conviction after summary trial before a Magistrate, to a fine not exceeding ten thousand rupees or to imprisonment of either description for a term not exceeding six months, or to both such fine and imprisonment.

(3) Every person who, being an employee for the purposes of Chapter XIV, fails to comply with the requirements of subsection (1) of section 122 shall be guilty of an offence under this Act, and shall be liable on conviction after summary trial before a Magistrate, to a fine not exceeding seven thousand five hundred rupees.

(4) Every person who without reasonable excuse—

(*a*) makes or furnishes an incorrect return by omitting or understating any income, of which he is required by this Act to make or furnish a return, either on his own behalf or on behalf of another person or a partnership;

(*b*) makes an incorrect statement in connection with a claim for a deduction or allowance under Chapter VII; or

(*c*) gives an incorrect information in relation to any matter or thing affecting his own liability to tax or the liability of any other person or of a partnership,

shall be guilty of an offence under this Act, and shall be liable on conviction after summary trial before a Magistrate, to a fine consisting of—

(i) a sum equal to the amount of tax which had been undercharged in consequence of such incorrect return, statement, or information or would have been so undercharged if such return, statement, or information had been accepted as correct, and

(ii) a sum not exceeding ten thousand rupees,

or to imprisonment of either description for a term not exceeding six months, or to both such fine and imprisonment.

(5) Every person who being an employer for the purposes of Chapter XIV, without reasonable cause makes an incorrect declaration by omitting or understating the amount of remuneration of any employee in his employment or omits or understates the amount of income tax deducted from the remuneration of any employee, shall be guilty of an offence under this Act, and shall be liable on conviction after summary trial before a Magistrate to a fine not exceeding ten thousand rupees or to imprisonment of either description for a term not exceeding six months, or to both such fine and imprisonment.

(6) Every person who, being an employee for the purposes of Chapter XIV, makes an incorrect statement in any notice given by him under subsection (1) of section 122 to the Commissioner-General, shall be guilty of an offence under this Act and shall be liable on conviction after summary trial before a Magistrate, to a fine not exceeding ten thousand rupees or to imprisonment of either description for a term not exceeding six months, or to both such fine and imprisonment.

(7) No person shall be liable to any penalty under this section unless the complaint concerning such offence was made in the year of assessment in respect of or during which, the offence was committed or within five years after the expiration thereof.

(8) The Commissioner-General may compound any offence under this section and may before judgement, stay or compound any proceedings thereunder.

203. Every person who—

Breach of secrecy and other matters to be offences.

(*a*) being a person required to take an oath of secrecy under subsection (2) of section 209, acts under this Act without taking such oath;

(*b*) acts in contravention of the provisions of subsection (1) of section 209 or an oath taken under subsection (2) of section 209; or

(*c*) aids, abets, or incites another person to act in contravention of any of the provisions of this Act,

shall be guilty of an offence under this Act and shall be liable on conviction after summary trial before a Magistrate, to a fine not exceeding two thousand rupees, or to imprisonment of either description for a term not exceeding six months or to both such fine and imprisonment.

204. (1) Any person who—

Penal provisions relating to fraud &c.

(*a*) omits from a return made or furnished under this Act any income, which he should have included in such return;

(*b*) makes any false statement or entry in any return made or furnished under this Act;

(*c*) makes a false statement in connection with a claim for a deduction or allowance under Chapter VII;

(*d*) signs any statement or return made or furnished under this Act without reasonable grounds for believing the same to be true;

(*e*) gives any false answer, whether verbally or in writing, to any question or request for information asked or made in accordance with the provisions of this Act;

(*f*) prepares or maintains or authorises the preparation or maintenance, of any false books of account or other records, or falsifies or authorises the falsification of any books of account or records; or

(*g*) makes use of any fraud, art or contrivance whatsoever, or authorizes the use of any such fraud, art or contrivance,

and thereby evades or attempts to evade income tax, assists any other person to evade or to attempt to evade such tax, shall be guilty of an offence under this Act, and shall be liable on

conviction after summary trial before a Magistrate, to fine consisting of—

(i) a sum equal to the amount of tax so evaded or attempted to be evaded for which he, or as the case may be, the other person so assisted, is liable under this Act, for the year of assessment in respect of or during which the offence was committed; and

(ii) a sum not exceeding ten thousand rupees or to imprisonment of either description for a term not exceeding six months,

or to both such fine and imprisonment.

(2) Every person who, being an employer for the purposes of Chapter XIV—

(*a*) omits from a declaration made under paragraph (a) or paragraph (*d*) or paragraph (*e*) of section 120 any remuneration or omits or understates in such declaration the amount of income tax deducted from such remuneration; or

(*b*) gives a false certificate of income tax deduction under paragraph (*b*) or paragraph (*c*) of section 120,

and thereby evades or attempts to evade income tax or assists any other person to evade or to attempt to evade such tax, shall be guilty of an offence under this Act, and shall be liable on conviction after summary trial before a Magistrate, to fine not exceeding ten thousand rupees or to imprisonment of either description for a term not exceeding six months or to both such fine and imprisonment.

(3) The Commissioner-General may compound any offence under this section and may before judgement stay or compound any proceedings thereunder, subject to the recovery of an amount that is not less than one third of the fine that may be imposed under sub paragraphs (i) and (ii) of subsection (1). Such fine recovered shall be credited to the Consolidated Fund.

204A. Any auditor or tax practitioner who in the discharge of his professional duty, deliberately misinterprets any provisions of this Act or any other Act administered by the Commissioner- General, or regulation, rule or order made there under shall be guilty of an offence under this Act and on conviction after summary trial before a Magistrate, be liable to a fine not exceeding rupees fifty thousand or to imprisonment of either description for a term not exceeding six months or to both such fine and imprisonment.

Penal provision relating to misinterpretation of provisions of this Act or any other Act administered by the Commissioner-General by auditors and tax practitioners.
$ 48,22 of 2011 w.e.f.01.04.2011

$ 35, 18 of 2013 w.e.f.01.04.2013

205. The institution of a prosecution in respect of an offence under this Act or the imposition of a penalty, fine or a term of imprisonment in respect of any such offence, shall not relieve any person from liability to assessment or payment, of any tax for which he is or may be liable.

Tax to be payable notwithstanding any prosecution or conviction for an offence under this Act.

206. No prosecution in respect of an offence under section 202 or section 204 may be commenced except at the instance of or with the sanction of, the Commissioner-General.

Prosecution to be with the sanction of the Commissioner-General.

207. Where any statement is made or document is produced in relation to any matter arising under this Act, by any person who is chargeable with tax under this Act or by his authorized representative to the Commissioner-General or the Senior Deputy Commissioner-General or a Deputy Commissioner-General or a Senior Commissioner or a Commissioner or a Deputy Commissioner, or a Senior assessor or Assistant Commissioner or an Assessor, or Assistant Commissioner then, notwithstanding anything in any other law, such statement or document shall be admissible in evidence in any proceedings against such person in respect of any offence referred to in section 202 or section 203 or section 204 of this Act.

Admissibility of statements and documents in evidence.

$ 41, 10 of 2007 w.e.f.30.03.2007

CHAPTER XXX
ADMINISTRATION

208. (1) For the purposes of this Act, there shall be appointed a Commissioner-General of Inland Revenue, a Senior Deputy Commissioner-General of Inland Revenue and such number of Deputy Commissioner-Generals of Inland Revenue, Senior Commissioners of Inland Revenue, Commissioners of Inland Revenue, Deputy Commissioners of Inland Revenue, Senior Assessors of Inland Revenue, Assessors or Assistant Commissioners of Inland Revenue and Tax Officers of Inland Revenue, as may be necessary.

Officers.

(2) A Senior Deputy Commissioner-General or a Deputy Commissioner-General or a Senior Commissioner or Commissioner or a Commissioner exercising or performing or discharging any power, duty or function conferred or imposed on or assigned to the Commissioner- General by any provision of this Act, shall be deemed for all purposes to be authorized to exercise, perform or discharge that power, duty or function until the contrary is proved.

(3) A Commissioner may exercise any power conferred on any Assessor or Assistant Commissioner of Inland Revenue by any provision of this Act.

(4) Notwithstanding anything to the contrary in any other provisions of this Act, a Senior Assessor or Assistant Commissioner of Inland Revenue or an Assessor or Assistant Commissioner of Inland Revenue shall not – *$ 51, 9 of 2008 w.e.f.01.04.2008*

(a) act under section 163; or

(b) reach any agreement or make any adjustment to any assessment made under subsection (7) of section 165.

except with the written approval of the Commissioner-General or any Commissioner.

(5) Every person who holds office on the date of commencement of this Act, as the Commissioner-General of Inland Revenue or as a Senior Deputy Commissioner– General of Inland Revenue, or as a Deputy Commissioner- General of Inland Revenue, or as a Senior Commissioner of Inland Revenue, or as a Commissioner of Inland Revenue or as a Commissioner of Inland Revenue or as a Senior Assessor or Assistant Commissioner of Inland Revenue or as an Assessor or Assistant Commissioner of Inland Revenue or a Tax Officer of Inland Revenue, shall be deemed for all purposes, to have been appointed under subsection (1). *$ 42, 10 of 2007 w.e.f.30.03.2007*

208A. The Commissioner-General shall appoint a Committee comprising senior officers of the Department of Inland Revenue who shall be mandated to interpret the provisions of all Acts administered by him, notwithstanding anything to the contrary in any such Act. Such Committee shall in terms of such mandate issue all necessary guidelines and instructions as are required in order to ensure uniformity with regard to such interpretation. The committee shall determine any request made to it for interpretation within six months from the date of receipt of such request. Committee to interpret provisions of Act and issue rulings.

$ 48,22 of 2011 w.e.f.01.04.2011

$ 36, 18 of 2013 w.e.f.01.04.2013

209. (1) Except in the performance of his duties under this Act, every person who has been appointed or is deemed to be appointed under or who has been employed in carrying out or in assisting any person in carrying out the provisions of this Act, shall preserve and aid in preserving secrecy with regard to all matters relating to the affairs of any person that may come to his knowledge in the performance of his duties under this Act, and shall not communicate any such matter to any person other than the person to whom such matter relates or his authorized representative or to the Minister or the Secretary to the Ministry of the Minister in charge of the subject of Finance, nor suffer or permit any person to have access to any records in the possession, custody or control of the Commissioner-General. Official Secrecy

$ 42(1) 8 of 2014

(2) Every person appointed or deemed to be appointed under or employed in carrying out the provisions of this Act shall before acting under this Act, and the Minister and the Secretary to the

Ministry of the Minister in charge of the subject of Finance may before acting under this Act, take and subscribe an oath of secrecy in the prescribed form before a Justice of the Peace.

(3) No person appointed or deemed to be appointed under or employed in carrying out the provisions of this Act, shall be required to produce in any court any return, document or assessment or to divulge or communicate to any court any matter or thing coming to his notice in the performance of his duties under this Act, except as may be necessary for the purposes of giving effect to the provisions of this Act or of any other written law administered by the Commissioner- General.

(4) Notwithstanding anything contained in this section, any officer of the Department of Inland Revenue may communicate any matter which comes to his knowledge in the performance of his duties under this Act or under any other written law administered by the Commissioner-General, to—

(*a*) any other officer of that Department, if the communication of such matter is necessary for the performance of any duty under this Act or such other written law;

(*b*) the Commissioner of Revenue of any Provincial Council, being a matter which relates to the turnover for any period commencing on or after January 1, 1991, of any wholesale or retail trade or business carried on by any person or partnership within the Province for which such Provincial Council is established, to such an extent as the Commissioner-General may deem necessary to enable such Commissioner to ascertain such turnover;

For the purposes of this paragraph, the expression, "turnover" has the meaning assigned to it by paragraph (*r*) of subsection (1) of section 26;

(c) the Income Tax Authority of any territory of the Commonwealth of Nations, to such an extent as the Commissioner-General may deem necessary to enable such Authority to grant relief from income tax paid in Sri Lanka; and

(*d*) the Income Tax Authority of any country with which an agreement has been entered into for affording relief from double taxation,

and the Commissioner-General may produce or cause to be produced in any court in any proceedings under this Act, a copy of any

particulars contained in any return or document furnished to him under this Act or under any other written law administered by him or which is otherwise in his possession, certified by him or on his behalf, to be a correct copy of such particulars and such copy shall, notwithstanding anything in the Evidence Ordinance relating to the proof of documents, be admissible in evidence:

Provided that, the Commissioner-General may produce or cause to be produced the original of any such return or document in any case where it is necessary to prove the handwriting or the signature of the person who wrote, made, signed or furnished such return or document, but only for the purpose of such proof:

Provided further that, the Commissioner-General shall not in any case be compelled to produce in any court, either the original of such document or return or a copy of any particulars contained in such document or return.

(5) Notwithstanding anything contained in the preceding provisions of this section, the Commissioner-General shall–

(*a*) if required by a Commission established under the Special Presidential Commissions of Inquiry Law, No. 7 of 1978, furnish as specified in a notice issued by such Commission, all information available to him relating to the affairs of any person, whose conduct is being inquired into by the Commission or of the spouse or a son or daughter of such person, or of any other person specified by the Commission, and to produce or furnish as so specified in the notice any document relating to such person, spouse, son or daughter or other person, as the case may be, which is in the possession or under the control of the Commissioner-General;

(*b*) if required by the Attorney-General, in the course of an investigation of an allegation of bribery against any person or after the commencement of prosecution or an arrangement of any person for bribery, furnish, as specified in the notice issued to him, all information available to him relating to the affairs of such person or of the spouse or a son or daughter of such person, and produce or furnish, as specified in the notice, any document or a certified copy of any document relating to such person, spouse, son or daughter, which is in the possession or under the control of the Commissioner-General;

(*c*) if required by a Commission appointed under the Commissions of Inquiry Act, furnish as specified in a notice issued to him, all information available to him relating to the affairs of any person whose conduct is being inquired into by the Commission or of the spouse or a son or daughter of such

person and produce or furnish as specified in such notice, any document or a certified copy of any document relating to such person, spouse, son or daughter, which is in the possession or under the control of the Commissioner-General;

(d) report to the Attorney-General for investigation any case where he suspects from information available to him, that any person is guilty of bribery.

$ 42(2) 8 of 2014 w.e.f.01.04.2014

(e) if required by a letter in writing by the Director General of Customs, in the course of carrying out the official duties, furnish as specified in such letter, all information available to him relating to the affairs of any person in respect of whom an investigation is being conducted by the Director General of Customs, or of the spouse or a son or daughter of such person, which is in the possession or under the control of the Commissioner-General;

(f) if required by a letter in writing by the Director General of Census and Statistics, in the course of carrying out the official duties, furnish as specified in such letter, all information available to him relating to the affairs of any person in respect of whom information and statistics are being collected by the Director General of Census and Statistics, or of the spouse or a son or daughter of such person, which is in the possession or under the control of the Commissioner- General;

(g) if required in pursuance to an Order issued by a competent Court, by the Inspector General of Police, in the course of an investigation of any crime or proceeds of crime which affects to the public interest, against any person, or after the commencement of prosecution of any person for bribery or corruption, furnish, all information available to him relating to the affairs of such person or of the spouse or a son or daughter of such person, as specified in such order, and provide a certified copy of any document relating to such person, spouse, son or daughter, which is in the possession or under the control of the Commissioner- General.

(6) Notwithstanding anything contained in the preceding provisions of this section, any officer of the Department of Inland Revenue shall, at the request of the Land Reform Commission established under the Land Reform Law, No. 1 of 1972, disclose to such Commission such particulars relating to the affairs of any person that may come to his knowledge in the performance of this duties under this Act, as may be required by such Commission for the exercise of its powers and the discharge of its functions under that Law.

(7) Notwithstanding anything contained in this section, the Commissioner-General may permit the Auditor-General or any officer of the Department of the Auditor-General duly authorized by him in that behalf, to have access to any books, records, returns or other documents as may be necessary for the performance of his official duties.

The Auditor-General or any officer authorised by him under this subsection shall for the purpose of subsection (2), be deemed to be a person employed, in carrying out the provisions of this Act.

(8) Notwithstanding anything in the preceding provisions of this section, the Commissioner-General or any person authorized in that behalf by the Commissioner-General may, from time to time, cause to be published in such manner as the Commissioner-General may consider expedient,—

(*a*) a list containing the names and addresses of all the tax payers and the total income declared in the returns of such tax payers in respect of any year of assessment, and where the Commissioner-General considers it necessary, their principal sources of income; and

(*b*) particulars relating to any person who has been convicted in any court of law for any offence under this Act, or on whom a penalty has been imposed by the Commissioner-General under section 112 or under section 172.

(9) Where for the purposes of prosecuting any director, manager or other officer or employee of an insurance business who has acted in a manner prejudicial to the interests of the holders of policies issued in respect of that business, the Attorney-General by written notice requires the Commissioner-General to furnish such information relating to the assets of such director, manager, other officer or employee as is in the possession of the Commissioner-General, the Commissioner-General shall, notwithstanding anything in the preceding provisions of this section, furnish such information to the Attorney-General.

(10) Notwithstanding anything contained in the preceding provisions of this section, where it appears to the Commissioner-General from any matter which comes to his knowledge in the performance of his duties under this Act, that any person has committed an offence under the Exchange Control Act or the Customs Ordinance, he may communicate or deliver to the Controller of Exchange or the Director- General of Customs, as the case may be, any information relating to the commission of the offence or any articles, books of account or the documents necessary or useful for the purpose of proving the commission of such offence.

(11) Where the Commissioner-General has under subsection (10) communicated or delivered to the Controller of Exchange or the Director-General of Customs any information relating to the commission, or any articles, books of account or other documents necessary or useful for the purpose of proving the commission, by any person of an offence under the Exchange Control Act or the Customs Ordinance, as the case may be, the Commissioner-General or any other officer of the Department of Inland Revenue may, notwithstanding anything to the contrary in the preceding provisions of this section, in any proceedings against such person for that offence, give evidence relating to such information, articles, books of account or other documents and produce or cause to be produced any returns, books of account, other documents or articles he may be required to produce in such proceedings. The Commissioner- General or such other officer may produce or cause to be produced in court for the purpose of such proceedings, a copy of any particulars contained in any return, books of account or other document, and such copy shall, notwithstanding anything in the Evidence Ordinance relating to the proof of documents, be admissible in evidence:

Provided that the Commissioner-General or other officer—

(*a*) may produce or cause to be produced the original of such return, books of account or other document in any case where it is necessary to prove the handwriting or the signature of the person who wrote, made, signed or furnished such return, books of account or other document, but only for the purpose of such proof;

(*b*) shall not in any case be compelled to produce in court either the original of such return, books or account or other document or a copy of the particulars contained in such return, books of account or other document.

$ 42(3) 8 of 2014 w.e.f.01.04.2014

(12) Nothing in the preceding provisions of this section shall be read or construed, as empowering the Minister or the Secretary to the Ministry of the Minister to have access to or to examine any records or documents relating to the affairs of any person, in the possession, custody or control of the Commissioner-General.

(13) Nothing in the preceding provisions of this section shall be read or construed as requiring the Commissioner- General to disclose such particulars relating to the affairs of any person as may come to his knowledge through the exchange of information in pursuance of any agreement entered into between the Government of Sri Lanka and Government of any other territory,

and referred to in section 97 of this Act, to any person or authority other than any person or authority involved in the assessment or collection of or the enforcement of or the prosecution in respect of any offence relating to, the taxes which are the subject of that agreement.

210. (1) There shall be established a Fund called the Inland Revenue Incentive Fund (hereinafter in this section referred to as "the Fund") Inland Revenue Incentive Fund

(2) There shall be paid into the Fund in respect of each year, such sums as may be appropriated annually by Parliament for the purpose of the Fund.

(3) There shall be paid out of the Fund—

(*a*) all sums required for the welfare of officers of the Department of Inland Revenue, in accordance with any scheme approved by the Minister; and

(*b*) group incentive allowances to any class or category of officers of the Department of Inland Revenue, in accordance with such scheme as may be approved by the Minister, to ensure efficiency in the administration of any Act administered by the Commissioner-General.

(4) The Commissioner-General or any officer of the Department of Inland Revenue specially authorized by him in that behalf, shall administer the Fund in accordance with the prescribed procedure.

211. The Commissioner-General may pay from sums appropriated for that purpose by Parliament, such sums of money as he considers reasonable in the circumstances of the case, to any individual who provides information which result in the assessment of any income not disclosed by any other person and the collection of tax from such person. Commissioner-General may pay rewards to informants.

CHAPTER XXXI
GENERAL

212. (1) The Minister may make regulations for the purpose of carrying out or giving effect to the principles and provisions of this Act. Regulations

(2) In particular and without prejudice to the generality of the powers conferred by subsection (1), the Minister may make regulations in respect of the following matters:–

(a) the methods by which an estimate of the income liable to tax may be made, in cases where the amount of such income cannot be definitely ascertained;

(b) the procedure to be followed in respect of applications for refunds of any tax paid under this Act and for any allowance or deduction which may be claimed under this Act;

(c) any matter which is required or authorized by this Act to be prescribed;

(d) penalties for the contravention of any regulations made under this section or for failure to comply therewith, such penalty not exceeding in each case, a sum of five hundred rupees;

(e) the manner of computation of profits and income whenever the Financial Accounting Standards applicable in Sri Lanka are changed; *$ 43(2) 8 of 2014 w.e.f. 1.4.2014*

(f) guidelines for the calculation of qualifying payment relating to cost of acquisition or merger of any bank, financial institution or leasing company and the continuation of tax neutral position after acquisition, merger or amalgamation, as the case may be, for the purpose of this Act and other Acts administered by the Commissioner- General; *[$ 36, 9 of 2015]*

(g) rules and guidelines for the implementation of the use of electronic communication or electronic records with regard to the Acts administered by the Commissioner-General from time to time as required.

(3) A regulation made under this section, other than a regulation—

(*a*) prescribing a penalty for; or

(*b*) enhancing a penalty prescribed for,

the contravention of or failure to comply with, a regulation made under this section, may be declared to take effect from a date earlier than the date of its publication in the *Gazette*.

(4) A regulation prescribing a penalty for the contravention of or failure to comply with a regulation, shall not come into operation until it is approved by Parliament and notice of such approval is published in the *Gazette*.

(5) Every regulation made by the Minister other than a regulation referred to in subsection (4), shall come into operation on the date of its publication in the Gazette or on such other date as may be specified in the regulation.

(6) Every regulation referred to in subsection (5) shall as soon as convenient after its publication in the *Gazette*, be brought before Parliament for approval. Any such regulation which is not so approved shall be deemed to be rescinded as from the date of disapproval, but without prejudice to anything previously done thereunder. Notification of the date on which a regulation is deemed to be rescinded, shall be published in the Gazette.

213. The Commissioner-General may from time to time specify the forms to be used for all or any of the purposes of this Act, and any form so specified may from time to time be amended or varied by the Commissioner-General or some other form may be substituted by the Commissioner-General, in place of any form so specified. Any form so specified by the Commissioner-General may be published in the *Gazette*. Forms.

214. (1) Any officer appointed for the purposes of this Act who is specially authorized by the Commissioner-General in that behalf may, accompanied by a peace officer, do all or any of the following acts:– Power to search buildings or places.

(*a*) enter and search any building or place where he has reason to believe that any articles, books of account or other documents which in his opinion will be useful for or relevant to any proceedings under this Act, may be found and examine any such articles, books of account or other document if found;

(*b*) seize and deliver to the Commissioner-General any such articles, books of account or other documents or place marks of identification thereon or make extracts or copies therefrom;

(c) for the purpose of effecting such delivery, guard or cause to be guarded, any such articles, books of account or other documents;

(*d*) question any person whom he finds in that building or place with respect to any matter arising under this Act, or the ownership of any such articles, books of accounts or other documents;

(*e*) make a note or an inventory of any other thing found in the course of any search under this section, which in his opinion will be useful for or relevant to any proceedings under this Act,

and the provisions of the Code of Criminal Procedure Act, No. 15 of 1979 relating to searches shall apply, so far as may be, to searches under this section.

(2) Before authorizing any officer to exercise any powers under subsection (1), the Commissioner-General shall record the circumstances which necessitate the exercise of those powers by that officer.

(3) (*a*) Any article shall be seized and delivered to the Commissioner-General by the officer carrying out a search under this section, only if—

(i) any tax payable by the owner of such article under any written law administered by the Commissioner-General, is in default; or

(ii) such officer is satisfied after such investigation as he may deem necessary, that such article had been purchased by the owner thereof, out of or is profits and income in respect of which, income tax is payable by such owner but has not been paid by him.

(*b*) Where any article is seized under this section by an officer carrying out a search, the owner of such article shall be entitled to a receipt from such officer for the article so seized.

(4) Where any article is seized and delivered to the Commissioner-General under this section, the Commissioner- General may—

(*a*) if such article is cash and if such cash is less than or is equivalent to the amount of the tax in default or the tax payable according to the Commissioner- General, in respect of such article set off such cash in partial or full satisfaction of tax;

(*b*) if such cash is more than the amount of such tax, set off so much of the cash as is equivalent to the amount of such tax, in full satisfaction of such tax and return the balance to the owner of such article:

Provided that where such cash is in foreign currency, such balance shall be credited in a Bank to the account of the owner of such article, or

(*c*) if such article is not cash, retain, subject to the provisions of subsection (5), such article in his custody until—

(i) the tax in default, or the tax payable according to the Commissioner-General on the profits and income out of which such article had been purchased, as the case may be, is paid; or

(ii) arrangements are made to the satisfaction of the Commissioner-General for the payment of such tax.

(5) Where the tax is not paid or where arrangements are not made by the owner of the article as specified in paragraph (*c*) of subsection (4), within six months after the date of the seizure of such article, then the Commissioner-General shall cause such article to be sold by public auction.

(6) The sum realized by the sale of any article under this section shall be applied—

(*a*) firstly, in payment of the costs and charges of seizing, keeping and selling the article; and

(*b*) secondly, in satisfaction of the tax payable by the owner of that article,

and the balance, if any, shall be paid to the owner of that article.

(7) In this section—

"article" includes cash, whether or not in Sri Lanka currency, a postal order, a money order, a traveller's cheque, a letter of credit, a bill of exchange, a promissory note, gold, jewellery, a precious stone, and any stock-in-hand;

"document" includes any diskette, tape, compact disc or any other thing in which any computer programme or data is stored or recorded in codified form or in electronic, magnetic or other medium;

"peace officer" has the same meaning as in the Code of Criminal Procedure Act, No. 15 of 1979.

Power to search business premises.

215. (1) The Commissioner-General or any other officer of the Department of Inland Revenue who is specially authorized in that behalf by the Commissioner-General in writing, may do all or any of the following acts:—

(a) enter and inspect for the purposes of this Act, any place or building where any trade, business, profession or vocation is carried on or exercised by any person or partnership;

(*b*) open and examine any receptacle where any book of account, register, record, or any other document may be found, and make an inventory of the articles found therein;

(*c*) examine and take copies of, or make extracts from, any book of account, register, record or other document found in such place or building;

(*d*) operate any computer found in any such building and take print outs of the whole or part of any entries recorded or stored therein;

(*e*) take possession of any such book of account, register, record or other document, or place marks of identification thereon;

(*f*) count and make a record immediately of the cash found in such place or building;

(*g*) require any person whom he finds in such place or building, to give such information as is in his power to give, with respect to any matter under this Act;

(*h*) examine either alone or in the presence of any other person, as he thinks fit, with respect to any matter under this Act, any person whom he finds in such place or building.

(2) Where an officer authorized by the Commissioner- General under subsection (1), takes into his possession any book of account, register, record or other documents from any person or partnership, such officer shall issue to that person or partnership, as the case may be, a memorandum specifying the book, register, record or document he has taken into his possession.

(3) Any book of account, register, record or other document taken into his possession under subsection (1) by any officer, may be retained in the possession of such officer as long as may be necessary for the examination of such book, register, record, or document or for the institution of legal proceedings against the person to whom such book, register, record, or other document belongs.

(4) For the purpose of this section, "article" and "documents" shall have the same meaning assigned to them by section 214.

216. 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.

CHAPTER XXXII
INTERPRETATION

217. In this Act, unless the context otherwise requires— Interpretation.

"acquired" with reference to property, means acquired by purchase, gift, inheritance, or exchange, or in any other manner, and the

expression "acquisition" shall be construed accordingly;

"active partner" in relation to a partnership, means a partner who takes an active part in the control, management, or conduct of the trade or business of such partnership;

"agent", in relation to a non-resident person or to a partnership in which any partner is a non-resident person, includes—

(*a*) the agent, attorney, factor, receiver or manager in Sri Lanka of such person or partnership; and

(*b*) any person in Sri Lanka through whom such person or partnership is in receipt of any profits or income, arising in or derived from Sri Lanka;

"agricultural undertaking" means an undertaking for the purpose of the production of any agricultural, horticultural or any animal produce and includes any undertaking for the purpose of rearing livestock or poultry;

"approved by the Commissioner-General" when used in relation to a pension, provident, gratuity or savings fund means, approved by the Commissioner- General as confirming to such conditions as may be specified by him, either generally or specifically in relation to any such fund, by notice published in the Gazette, having regard to the need for the protection of the interests of the contributors to any such fund and the protection of revenue;

$ 23,19 of 2009 w.e.f.31.03.2009

"approved by the Minister" when used in relation to an undertaking or a company or a public corporation or an institution or any fund means, approved by the Minister as being essential for the economic progress of Sri Lanka;

"assessable income" means the residue of the total statutory income of any person, after deducting the aggregate amount of the deduction to which such person is entitled under section 32;

"Assessor or Assistant Commissioner" means an Assessor or Assistant Commissioner of Inland Revenue appointed or deemed to be appointed under this Act, and includes a Deputy Commissioner or Senior Deputy Commissioner of Inland Revenue;

"associate company" means a company over which an investing company has a significant influence and which is neither a subsidiary of the investing company nor is a joint venture of which the investing company is a partner;

$ 23,19 of 2009 w.e.f.31.03.2009

"authorized representative" means any individual who is authorized

in writing–

(1) by a person to act on his behalf for the purpose of this Act, and who is—

(*a*) in any case–

(i) a member of the Institute of Chartered Accountants of Sri Lanka; *$ 44(1), 8 0f 2014 w.e.f.1.4.2014*

(ii) Repealed

(iii) an Attorney-at-Law;

(iv) an employee regularly employed by that person, or

(v) a member of the Sri Lanka Institute of Taxation established under the Sri Lanka Institute of Taxation Act, No. 21 of 2000;

(*b*) in the case of an individual, a relative;

(*c*) in the case of a company, a director or the secretary of that company;

(*d*) in the case of a partnership, a partner of that partnership;

(*e*) in the case of a body of persons, a member of such body; or

(2) from time to time to act on his behalf for the purpose of this Act in respect of matters relating to such year of assessment as is specified in the authorization, and who–

(*a*) being and individual registered as an auditor under the Companies (Auditors) Regulations, is approved by the Commissioner-General; or

(*b*) is an individual approved by the Commissioner-General under regulations made in that behalf;

"bank" means any company or body of persons carrying on banking business and includes a licensed specialized bank, within the meaning of the Banking Act, No.30 of 1988;

"body of persons" includes any local or public authority, anybody corporate or collegiate, any fraternity, fellowship, association or society of persons, whether corporate or unincorporate, and any Hindu undivided family, but does not include a company or a partnership;

"Board of Investment" means the Board of Investment of Sri Lanka, established by the Board of Investment of Sri Lanka Law, No. 4 of 1978;

"business" includes an agricultural undertaking, the racing of horses, the letting or leasing of any premises, including any land by a company and the forestry;

"Ceylon Tourist Board" means the Ceylon Tourist Board established by the Ceylon Tourist Board Act, No.10 of 1966;

"Ceylon Chamber of Commerce" means the Ceylon Chamber of Commerce incorporated by the Chamber of Commerce Ordinance;

"charitable institution" means the trustee or trustees of a trust, or corporation or an unincorporated body of persons established for a charitable purpose only or engaged solely in carrying out a charitable purpose;

"charitable purpose" means a purpose for the benefit of the public or any section of the public in or outside Sri Lanka, of any of the following categories:—

(*a*) the relief of poverty;

(*b*) the advancement of education or knowledge other than by any institution established for business purposes or by any institution established under the Companies Act: *$ 49,22 of 2011 w.e.f.01.04.2011*

(*bb*) activities for the protection of the environment or eco-friendly activities *$ 49,22 of 2011 w.e.f.01.04.2011*

(*c*) the advancement of religion or the maintenance of religious rites and practices or the administration of a place of public worship;

(*d*) any other purpose beneficial or of interest to mankind, not falling within any of the preceding categories;

"child" in relation to an individual to whom this Act applies means ,a child under eighteen years of age, and includes a child adopted under the Adoption of Children Ordinance by that individual, and where that individual is not a citizen of Sri Lanka, a child adopted by that individual in accordance with the law of the country of which he is a subject or citizen, but does not include–

(*a*) any child adopted under any other law;

(*b*) a married child;

(*c*) an illegitimate child;

"commercial bank" has the same meaning as in the Monetary Law Act (Cap 422);

"Senior Commissioner" means a Senior Commissioner of Inland Revenue, appointed or deemed to be appointed under this Act; *$ 43, 10 of 2007 w.e.f.30.03.2007*

"Commissioner-General" means the Commissioner-General of Inland Revenue appointed or deemed to be appointed under this Act, and :—

(*a*) in relation to any provision of this Act, includes the Senior Deputy Commissioner-General, a Deputy Commissioner-General, Senior Commissioner, a Senior Commissioner and Commissioner who is specially authorized by the Commissioner- General either generally or for some specific purpose, to act on behalf of the Commissioner-General; *$ 43, 10 of 2007 w.e.f.30.03.2007*

(*b*) in relation to Chapter XXIII, includes an adjudicator appointed by the Minister and authorized by the Commissioner- General under that Chapter;

"company" means any company incorporated or registered under any law in force in Sri Lanka or elsewhere, and includes a public corporation;

"Controller of Exchange" means the officer designated as the head of the Department of Exchange Control of the Central Bank;

"Commissioner" means a Commissioner of Inland Revenue appointed or deemed to be appointed under this Act;

"dividend" includes–

(*a*) any distribution of profit by a company to its shareholders, in the form of–

(i) money or of an order to pay money;

(ii) shares in any other company; or

(iii) debentures in that company or in any other company; or

(iv) scrip dividend or dividend in specie ; or *$ 26, 8 of 2012 w.e.f.01.04.2012*

(v) where a company buys back shares from its shareholders, the excess, if any, paid to any shareholder over the market price of such share quoted in the Colombo Stock Exchange or the market value of such share as the case may be, as at the date on which the shareholders of such company at a meeting approved such share buyback; and

$ 37, 18 of 2013 w.e.f.01.04.2013

(*b*) the amount of any capital returned or distributed to the extent of the paid up value of any shares distributed by the company to its shareholders within six years preceding the date of such return or distribution of capital, such paid-up value representing the capitalization of the whole or any part of the profits of the company;

"donee" means any person who acquires any property under a gift, and where a gift is made to a trustee for the benefit of another person, includes both the trustee and the beneficiary;

"donor" means any person who makes a gift;

"executive officer" means a director of a company or corporation, or an employee in any trade, business, profession or vocation whose monthly emoluments (including all allowances) are not less than seventy five thousand rupees;

$44(2),8 of 2014 w.e.f.01.04.2014

"executor" means an executor or administrator of a deceased person, and includes–

(*a*) any person who takes possession of or intermeddles with the property of a deceased person;

(*b*) any person who has applied or is entitled to apply to a District Court for the grant or resealing of probate or letters of administration in respect of the estate of a deceased person; or

(*c*) a trustee acting under a trust created by the last will of the author of the trust;

"foreign currency" has the same meaning as in the Exchange Control Act;

"foreign currency banking unit" means a unit or department of a commercial bank, authorized by the Central bank of Sri Lanka to operate as a foreign currency banking unit;

"gem" has the same meaning as in the National Gem and Jewellery Authority Act, No. 50 of 1993;

"gift" means a gift within the meaning of section 52 of the Inland Revenue Act, No. 28 of 1979;

"Government institution" means any Department or undertaking of the Government of Sri Lanka;

"incapacitated person" means any minor, lunatic idiot or person of unsound mind;

"local authority" means any Municipal Council, Urban Council, Pradeshiya Sabha and includes any Authority established by or under any law to exercise, perform and discharge powers duties and functions, corresponding or similar to the powers, duties and functions exercised, performed and discharged by any such Council or Sabha;

"market value" with reference to any property and any date, means the price which, in the opinion of an Assessor or Assistant Commissioner, that property would have fetched on that date, in an open market;

"mutual fund" means any mutual fund licensed as a mutual fund by the Securities and Exchange Commission of Sri Lanka; (repealed)

$ 43, 10 of 2007 w.e.f.30.03.2007

"non-resident" or "not resident" means not resident in Sri Lanka within the meaning of section 79;

"owner", in relation to land and improvements thereon, includes a person who holds such land and improvements subject to a ground rent or other annual charge;

"partnership" shall not include any disposition, trust, grant, covenant, agreement, assignment, settlement, or other arrangement by which the share of the divisible profits or the divisible loss of a partner of any partnership, is shared with any other person or partnership;

"person" includes a company or body of persons or any government;

"precedent partner" means the partner who, of the active partners resident in Sri Lanka–

(*a*) is first named in the agreement of partnership;

(*b*) if there is no such agreement, is specified by name or initials singly or with precedence to the other partners, in the usual name of the partnership; or

(*c*) is the first named in the statement made under section 4 of the Business Names Act, No.7 of 1987;

"prescribed" means prescribed by regulation made under this Act;

"primary dealer" means any financier or bank, appointed, by the Monetary Board of Sri Lanka, under the Local Treasury Bills Ordinance (Chapter 417) or the Registered Stocks and Securities Ordinance (Chapter 420), and functioning as a primary dealer in Treasury Bills, Treasury Bonds, Registered Stock or other Security;

"profits" or "income" means the net profits or income from any source for any period calculated in accordance with the provisions of this Act;

"property" includes any interest in any movable or immovable property;

"Provincial Council" means any Provincial Council established for a Province, under Article 154A of the Constitution;

"public corporation" means any corporation, board or other body which was or is, established by or under, any written law, other than the Companies Act, No.7 of 2007, with capital wholly or partly provided by the Government, by way of grant, loan or other form; *$ 26, 8 of 2012*

"quoted public company" means any company which is resident in Sri Lanka and in respect of which the Assessor or Assistant Commissioner is satisfied that in relation to any year of assessment, it is a company the shares of which are quoted throughout that year of assessment or where such company is incorporated during that year of assessment, from the date of incorporation to the end of that year of assessment, in any official list published by any stock exchange licensed by the Securities and Exchange Commission of Sri Lanka;

"rates" means any taxation imposed by a local authority in respect of property;

"receiver" includes any liquidator and any assignee, trustee or other person having the possession or control of the property of any person, by reason of insolvency or bankruptcy;

"regulated provident fund" means any provident fund–

(*a*) which is established by a body corporate whose profits and income are exempt from income tax under any written law; and

(*b*) which is regulated and maintained under the written law by which such body corporate is constituted;

"resident" or "resident in Sri Lanka" means resident in Sri Lanka within the meaning of section 79;

"Securities and Exchange Commission" means the Securities and Exchange Commission of Sri Lanka established by the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987;

"Senior Deputy Commissioner-General" means the Senior Deputy Commissioner-General of Inland Revenue appointed or deemed to be appointed under this Act ; *$ 43, 10 of 2007 w.e.f.30.03.2007*

"Senior Commissioner" means a Senior Commissioner of Inland Revenue appointed or deemed to be appointed under this Act ; *$ 43, 10 of 2007 w.e.f.30.03.2007*

"shareholder" includes any member of a company having a share or interest in the capital or profits or income thereof, whether the capital of such company is divided into shares or not;

"share" includes any interest in the capital or profits or income of a company;

"statutory income" means income from any source computed in accordance with section 28;

"taxable income" means the residue of assessable income of a person after deducting the aggregate amount of the allowances to which such person is entitled under section 33;

"Tax Appeals Commission" means the Tax appeals Commission established by the Tax Appeals Commission Act, No. 23 of 2011; *$ 49,22 of 2011 w.e.f.01.04.2011*

"trade" includes every trade and manufacture and every adventure and concern in the nature of trade;

"transfer of property" means any disposition, conveyance, assignment, settlement, delivery, payment or other alienation of property, and includes–

(*a*) the creation of a trust in property; and

(*b*) the grant or creation of any interest in any property;

"trustee" includes any trustee, guardian, curator, manager or other person having the direction, control or management of any property on behalf of any person and in relation to any unit trust,

the person appointed as the trustee of that unit trust by the instrument creating such unit trust, but does not include an executor;

"unit trust" means any unit trust licensed as a unit trust by the Securities and Exchange Commission of Sri Lanka;

"with the approval of the Central Bank of Sri Lanka" when used in relation to the opening of an account or the making of an investment, means with the approval of the Central Bank of Sri Lanka as being essential for the economic progress of Sri Lanka;

"year of assessment" means the period of twelve months commencing on the first day of April of any year and ending on the thirty-first day of March in the immediately succeeding year;

"year preceding a year of assessment" means the period of twelve months ending on the thirty first day of March immediately prior to a year of assessment.

CHAPTER XXXIII
APPLICATION OF THE INLAND REVENUE ACT, NO. 38 OF 2000

218. (1) The Inland Revenue Act, No. 38 of 2000 shall not apply to any income tax, for any year of assessment commencing on or after April 1, 2006.

Application of the Inland Revenue Act, No. 28 of 1979 or Inland Revenue Act, 38 of 2000.

$ 44, 10 of 2007 w.e.f.01.04.2006

(2) Where the whole or any part of the profits and income of a person are exempt from income tax under any provisions of the Inland Revenue Act, No. 28 of 1979 or of the Inland Revenue Act, No. 38 of 2000, as the case may be, for a period as specified in any of those provisions and there remains on March 31, 2006, in relation to any person, an unexpired part of any such period, the whole or part, as the case may be, of the profits and income which would but for the provisions of subsection (1) have been exempt from income tax, the whole or part, as the case may be, of the profits and income of that person for that part of the period shall, notwithstanding anything in subsection (1) continue to be exempt from income tax as if such provisions continued to have application:

Provided however that, where a company approved by the Minister for the purposes of section 22 DDD of the Inland Revenue Act No.28 of 1979 had given notice in writing to the Commissioner-General before December 31, 2000 that such company had elected not to conform to the conditions subject to which approval was granted the profits and income from any undertaking of such company as is referred to in subsection (2) of that section for any year of assessment commencing on or

$ 44, 10 of 2007 w.e.f.01.04.2006

after April 1, 2006, shall, notwithstanding the provisions of subsection (1) of that section be liable to income tax.

(3) Where the Board of Investment of Sri Lanka has entered into an agreement with an enterprise under section 17 of the Board of Investment of Sri Lanka Law No.4 of 1978 prior to April 1, 2006 providing for the exemption of the whole or a part of the profits and income of that enterprise from income tax payable under the Inland Revenue Act No.28 of 1979 or under the Inland Revenue Act, No. 38 of 2000, as the case may be, for a specified period, and there remains on March 31, 2006 an unexpired part of such specified period, the whole or part as the case may be, of the profits and income of that enterprise which but for the provisions of subsection (1) would have been exempt from income tax, shall be exempt from income tax payable under this Act, for such unexpired part of the specified period.

(4) Where any provision of the Inland Revenue Act No.28 of 1979 or of the Inland Revenue Act, No. 38 of 2000 provides for the deduction of—

(*a*) any loss in ascertaining the assessable income ;

(*b*) any allowance in ascertaining the taxable income,

of any person for any year of assessment, and there remains outstanding on March 31, 2006 any balance of such loss or allowance as the case may be, which, but for the provisions of subsection (1), would have been deductible from the assessable income or taxable income as the case may be, of that person in any year of assessment commencing on or after April 1, 2006 such balance shall, notwithstanding anything in subsection, (1) but subject to any conditions specified in the provisions enabling such deductions, be deductible from the assessable or taxable income as the case may be, of that person in any year of assessment commencing on or after April 1, 2006, as if such provision continued to have application.

$ 44, 10 of 2007 w.e.f.01.04.2006

(5) Where an individual:— *$ 44, 10 of 2007 w.e.f.01.04.2006*

(*a*) pays on or after April 1, 2006, to the Government of Sri Lanka or to any institution referred to in paragraph (ee) of subsection (2) of section 31 of the Inland Revenue Act, No. 28 of 1979, any amount:—

(i) in the repayment of the capital of any loan ; or

(ii) as monthly payments in terms of any rent purchase agreement, referred to in that paragraph ; or

(*b*) has incurred prior to April 1, 2006, any expenditure referred to in paragraph (i) of subsection (2) of section 31 of the

Inland Revenue Act, No. 38 of 2000, and apportioned to any year of assessment commencing on or after April 1, 2006,

the amount so paid or the expenditure so apportioned, as the case may be, shall, notwithstanding anything in subsection (1) but subject to the conditions specified in the respective paragraphs referred to in paragraph (a) and (b), be deductible from the assessable income of that individual for any year of assessment commencing on or after April 1, 2006, as if the Inland Revenue Act, No. 28 of 1979 or the Inland Revenue Act, No. 38 of 2000, as the case may be, continues to be in force.

(6) The allowance for depreciation in respect of any :— *$ 44, 10 of 2007 w.e.f.01.04.2006*

(*a*) capital asset acquired prior to April 1, 2000, or any qualified building constructed prior to April 1, 2000 ; or

(*b*) capital asset acquired on or after April 1, 2000, but prior to April 1, 2006, or any qualified building constructed on or after April 1, 2000, but prior to April 1, 2006,

shall, notwithstanding the non-application referred to in subsection (1), be computed in accordance with the respective provisions of the Inland Revenue Act, No. 28 of 1979 or the Inland Revenue Act, No. 38 of 2000, as the case may be.

(7) Any undertaking, company, public corporation, institution or any fund approved by the Minister or any accountant or any individual (for the purposes of the definition of authorised representative) or any provident or pension fund approved by the Commissioner-General under any provision of the Inland Revenue Act No. 28 of 1979 or of the Inland Revenue Act, No. 38 of 2000, as the case may be, shall be deemed to have been and to be approved by the Minister or by the Commissioner-General as the case may be, under the respective provisions of this Act.

FIRST SCHEDULE

[Section 35 and section 40]

Rates of Income Tax-Individuals other than any Receivers, Trustees, Executors or Liquidators

PART I

For any year of assessment ending on or before March 31, 2009, any individual other than an individual referred to in Part II or Part III *$ 24,19 of 2009*

On the first Rs.300,000 of the taxable income	*05 per centum*
On the next Rs.200,000 of the taxable income	*10 per centum*
On the next Rs.200,000 of the taxable income	*15 per centum*
On the next Rs.200,000 of the taxable income	*20 per centum*
On the next Rs.200,000 of the taxable income	*25 per centum*
On the next 500,000 of the taxable income	*30 per centum*
On the balance taxable income	*35per centum*

PART 1 A

For any year of assessment commencing on or after April 1, 2009**,** but ending on or before March 31, 2011, any individual other than an individual referred to in Part II or Part III *$ 24,19 of 2009* *$ 50,22 of 2011*

On the first Rs. 400,000 of the taxable income	05 per centum
On the next Rs. 400,000 of the taxable income	10 per centum
On the next Rs. 400,000 of the taxable income	15 per centum
On the next Rs. 500,000 of the taxable income	20 per centum
On the next Rs. 500,000 of the taxable income	25 per centum
On the next Rs. 500,000 of the taxable income	30 per centum
On the balance of the taxable income	35 per centum

PART I B

For any year of assessment commencing on or after April 1, 2011, any individual other than an individual referred to in Part II or Part III - *$ 50,22 of 2011 w.e.f.01.04.2011*

On the first Rs. 500,000/- of the taxable income	4 *per centum*
On the next Rs. 500,000/- of the taxable income	8 *per centum*
On the next Rs. 500,000/- of the taxable income	12 *per centum*
On the next Rs. 500,000/- of the taxable income	16 *per centum*
On the next Rs. 1,000,000 of the taxable income	20 *per centum*
On the Balance of the taxable income	24 *per centum*

PART II

Any individual who is not a citizen of Sri Lanka and who is deemed under subsection (7) of section 79 to be non- resident, during the period for which such individual is deemed non-resident.

On the taxable income	*15 per centum*

PART III

Any individual who is not a citizen of Sri Lanka and who is referred to in subsection (1) of section 40, for the period of two years referred to therein, or referred to in subsection (2) of section 40 for the period of five years referred to therein.

On the taxable income	*20 per centum* *$ 45, 10 of 2007* *w.e.f.01.04.2006*

PART IV

The rates of income tax applicable to certain profits from employment specified in subsection (2) of section 35.

(a) For the year of assessment commencing on April 1, 2006-

Where the period of contribution or the period of service, as the case may be, in relation to the excess referred to in subsection (2) of section 35 (other than any sum referred to in the proviso to that subsection) is less than 20 years.

on the first Rs. 1,000,000 of the sum received	*NIL*

Where the period of contribution or the period of service, as the case may be, in relation to the excess referred to in subsection (2) of section 35 (other than any sum referred to in the proviso to that subsection) is not less than 20 years.

on the first Rs. 2,000,000 of the sum received	*NIL*
on the next Rs. 500,000	*5 per centum*
on the next Rs. 500,000	*10 per centum*
on the balance	*15 per centum*

(b) For any year of assessment commencing on or after April 1, 2007-

Where the period of contribution or the period of service, as the case may be, in relation to the excess referred to in subsection (2) of section 35 (other than any sum referred to in the proviso to that subsection) is less than 20 years.

on the first Rs. 2,000.000	*NIL*
on the next Rs. 1,000,000	*5 per centum*
on the balance	*10 per centum*

Where the period of contribution or the period of service, as the case may be, in relation to the excess referred to in subsection (2) of section 35 (other than any sum referred to in the proviso to that subsection) is not less than 20 years.

on the first Rs. 5,000,000	*NIL*
on the next Rs. 1,000,000	*5 per centum*
on the balance	*10 per centum.*

PART V

The rate of income tax applicable to any sum referred to in the proviso to subsection (2) of section 35- — as per PART I, PART 1A or PART IB, but subject to a maximum of *20 per centum*
$ 45, 10 of 2007
w.e.f.01.04.2006
$ 27, 8 of 2012
$ 38, 18 of 2013
w.e.f.01.04.2013

(a) for any year of assessment commencing prior to April 1, 2013

(*b*) for any year of assessment commencing on or after April 1,2013 — as per PART IB, but subject to a maximum of *16 per centum.*

SECOND SCHEDULE — [Section 61 and 75]
$ 46, 10 of 2007
w.e.f.01.04.2006

Rates of Income Tax-Companies
PART - A

1. Any venture capital company - — *$ 25,19 of 2009*

(a) For any year of assessment commencing on or after April 1, 2006, but prior to April 1, 2011– on the taxable income — 20 *per centum*
$ 51,22 of 2011
w.e.f.01.04.2011

(*b*) For any year of assessment commencing on or after April 1, 2011 - on the taxable income — *12 per centum.*

2. Any unit trust or mutual fund—

(a) For the year of assessment commencing on April 1, 2006—

(i) on such part of the taxable income as is referred to in sub section (4) of section 75 ; — 10 *per centum*

(ii) on the balance part of the taxable income; — 20 *per centum*

(*b*) For any year of assessment commencing on or after April 1, 2007—

on the taxable income — 10 *per centum*

3. Any unit trust management company on the taxable income from the management of any unit trust- *$ 39, 18 of 2013 w.e.f.01.04.2013*

(a) for any year of assessment commencing prior to April 1, 2013 — as per PART B *[$ 37(1), 9 of 2015]*

(b) for any year of assessment commencing on or after April 1, 2013 — *10 per centum*

PART - B *$ 51,22 of 2011 w.e.f.01.04.2011*

1.*(a)* For the year of assessment commencing on April 1, 2006 —

Any company other than a company referred to in PART - A and of which the taxable income does not exceed Rs. 5,000,000 — *15 per centum;*

(b) For any year of assessment commencing on or after April 1,2007, but prior to April 1, 2011 -

(A) (i) of which the taxable income does not exceed Rs. 5,000,000/-;

(ii) which is not a company referred to in PART-A; and

(B) which is not the holding company, a subsidiary company, or an associate company of a group of companies,

on the taxable income — *15 per centum;*

(c) For any year of assessment commencing on or after April 1, 2011, but prior to April 1, 2014 – *$ 45(1) ,8 of 2014*

Any Company – *[$ 37(2), 9 of 2015]*

(A) (i) of which the taxable income does not exceed Rs. 5,000,000/-;

(ii) which is not a company referred to in PART-A; and

(B) Which is not the holding company, a subsidiary company, or an associate company of a group of companies

on the taxable income — *12 per centum;*

(d) For any year of assessment commencing on or after April 1, 2014- *$ 45(2) ,8 of 2014*

any company other than any company engaged in the manufacture of any article or in the provision of any service- *[$ 37(3), 9 of 2015]*

(A) (i) of which the taxable income does not exceed Rs. 5,000,000/-;

(ii) which is not a company referred to in PART-A; and

(B) which is not the holding company, a subsidiary company, or an associate company of a group of companies,

on the taxable income — *12 per centum;*

For the purpose of item (B) of paragraph (*b*), paragraph (*c*) and paragraph (*d*), the expressions "holding company", "subsidiary company", and "group of companies" shall have the same respective meanings which they have in the Companies Act, No.7 of 2007 and includes a holding company or a subsidiary of any company incorporated or registered outside Sri Lanka.

2. Any company for the year of assessment being any year of assessment commencing prior to April 1, 2011 in which its shares are first quoted in any official list published by a stock exchange licensed by the Securities and Exchange Commission of Sri Lanka (hereinafter referred to as the "first year of assessment") and for each year of assessment within the period of four years immediately succeeding that first year of assessment — *$ 45(2) ,8 of 2014*

(a) for which the taxable income exceeds Rs. 5,000,000/-; or

(*b*) if such company is a holding company, a subsidiary company or an associate company of a group of companies, on the taxable income for that year of assessment—

(i) for any year of assessment commencing prior to April 1, 2011 — *331/3 per centum*

(ii) for any year of assessment commencing on or after April 1, 2011 — *28 per centum*

Provided that, where such first year of assessment is any year of assessment which commences prior to April 1, 2006, the rate of 33 1/3 *per centum* shall apply in relation to any year of assessment which falls within such period of four years, but which commences on or after April 1, 2006.

3. Any company other than any company hereinbefore referred to in this Schedule, on the taxable income-

(*a*) for any year of assessment commencing prior to April 1, 2011 — 35 *per centum;*

(*b*) for any year of assessment commencing on or after April 1, 2011 — 28 *per centum;* *$ 28, 8 of 2012*

4. Where the taxable income of any company for any year of assessment exceeds five million rupees, then such part of the tax computed in accordance with this Act, as being payable by such company for such year of assessment as is attributable to such excess, shall not be more than such excess.

THIRD SCHEDULE [Section 35]

Rates of Income Tax - Persons Other than Individuals to whom the First Schedule Applies, and Companies

1. Hindu undivided families -	*$ 29, 8 of 2012 w.e.f.01.04.2012*
1. for any year of assessment commencing prior to April 1, 2011:	*30 per centum*
2. for any year of assessment commencing on or after April 1, 2011:	*24 per centum*
2. Charitable Institutions (including corporate bodies)	*10 per centum*
3. Executor (other than trustees under last wills) and receivers (other than liquidators) –	*$ 29, 8 of 2012 w.e.f.01.04.2012*
(a) for any year of assessment commencing prior to April 1, 2011;	30 *per centum*
(b) for any year of assessment commencing on or after April 1, 2011;	24 *per centum*
4.Trustees (including trustees under last wills) –	*$ 29, 8 of 2012 w.e.f.01.04.2012*
(a) for any year of assessment commencing prior to April 1, 2011;	30 *per centum*
(b) for any year of assessment commencing on or after April 1, 2011;	24 *per centum*
5. Partnerships –	*$ 29, 8 of 2012 w.e.f.01.04.2012*
(a) for any year of assessment commencing prior to April 1, 2011;	30 *per centum*
(b) for any year of assessment commencing on or after April 1, 2011;	24 *per centum*
6. Partnerships (on any assessment made) –	*$ 29, 8 of 2012 w.e.f.01.04.2012*
(a) for any year of assessment commencing prior to April 1, 2011;	30 *per centum*
(b) for any year of assessment commencing on or after April 1, 2011;	24 *per centum*
7. Any society registered or deemed to be registered as a registered society under the Co-operative Societies Law, No. 5 of 1972.	*$ 53, 9 of 2008 w.e.f.01.04.2008*
On the taxable income for any year of assessment ending on or before March 31, 2008	5 per centum
	$ 52,22 of 2011

8. Any club or association referred to in section 101, on the taxable income for -	*$ 52,22 of 2011* 20 *per centum*
(*a*) any year of assessment commencing prior to April 1, 2011	
(*b*) any year of assessment commencing on or after April 1, 2011	10 *per centum* *$ 29, 8 of 2012*
9. Mutual life assurance companies	20 *per centum*
10. Liquidators of companies	The rate of tax chargeable in respect of the company concerned
11. Governments (other than the Government of Sri Lanka and the Government of the United Kingdom)-	*$ 29, 8 of 2012 w.e.f.01.04.2012*
(a) for any year of assessment commencing prior to April 1, 2011	*30 per centum*
(b) for any year of assessment commencing on or after April 1, 2011	*28 per centum*
12. Business Undertakings vested in the Government under the Business Undertakings (Acquisition) Act, No. 35 of 1971-	*$ 29, 8 of 2012 w.e.f.01.04.2012*
(i) on the taxable income –	
(a) for any year of assessment commencing prior to April 1, 2011	*30 per centum*
(b) for any year of assessment commencing on or after April 1, 2011	*28 per centum*
(ii) on the balance of the profits after deduction therefrom of the tax payable under paragraph (i)	*25 per centum*
13. Employees Trust Fund and Provident or Pension Funds	*10 per centum*
14. Any thrift, saving or building society or welfare fund to which contributions are made by employees only or any gratuity funds approved for the purpose of section 25 (1) (o)	*10 per centum*
15. Persons (other than those referred to above and in the First or Second Schedule)-	*$ 29, 8 of 2012 w.e.f.01.04.2012*
(*a*) for any year of assessment commencing prior to April 1, 2011;	*30 per centum*
(*b*) for any year of assessment commencing on or after April 1, 2011;	*28 per centum*

FOURTH SCHEDULE

[Section 95]

Rates of Deduction of Income Tax from Interest, Rent, Ground Rent, Royalty, Annuity or Fees for Technical Services Paid or Credited to any Person or Partnership out of Sri Lanka	*[$ 37(4), 9 of 2015]*
Rate of deduction or income tax from interest, rent, ground rent, royalty, annuity or fees for technical services paid or credited to any person or partnership out of Sri Lanka	*20 per centum*

FIFTH SCHEDULE

The following rates shall be applicable notwithstanding the rates specified in the First, Second and Third Schedules.	*$ 40, 18 of 2013 w.e.f.01.04.2013*
1. Rate of income tax on the total amount of interest on compensation payable in respect of property vested in the Government, the Land Reform Commission or a public corporation or a local authority (section 36)	*10 per centum*
2. Rate of income tax on the total amount of interest received from any bank deposit (section 37)	*10 per centum*
3. Rate of income tax on the gross interest on loans granted by a company, partnership or other body or persons outside Sri Lanka (section 38)	*15 per centum*
4. Rate of income tax on royalty payable to any company, partnership or other body or persons outside Sri Lanka (section 39)	*15 per centum*
5. The rate of income tax on profits and income from off-shore foreign currency transaction of any foreign currency banking unit, for —	*$ 53,22 of 2011*
(*a*) any year of assessment commencing prior to April 1,2011	*20 per centum*
(a) any year of assessment commencing on or after April 1, 2011 (Section 41)	Appropriate rate under Second Schedule
6. The rate of income tax on profits and income arising before April 1, 2011, to any consignor or consignee from entrepot trade involving precious stones, metals not mined in Sri Lanka or any petroleum , gas or petroleum products or such other approved products (section 42)	*$ 53,22 of 2011* *10 per centum*
7. The rate of income tax on profits and income arising to any person from any approved undertaking for the operation and maintenance of facilities for the storage of goods or commodities involving entrepot trade (section 43)	*10 per centum*

8. The rate of income tax applicable to any profits or gains on the disposal on or before March 31, 2007of company shares, rights or warrants (section 44)	*15 per centum,* unless such person is liable at 10 *per centum* only *$ 53,22 of 2011*
9. The rate of income tax on profits from and undertaking carried on by a person other than a company,	*$ 53,22 of 2011*
(*a*) engaged in agriculture, promotion of tourism or construction work as defined in section 45 or section 217, being profits for any year of assessment commencing prior to April 1, 2011;	As per the First Schedule, subject to a maximum of 15 *per centum*
(*b*) engaged in agriculture, manufacture of animal feed, promotion of tourism, or construction work as defined in section 45 or section 217, being profits for any year of assessment commencing on or after April 1, 2011. (Section 45)	As per the First Schedule, subject to a maximum of 12 *per centum.*
10. The rate of income tax on profits from and undertaking carried on by a company,	*$ 53,22 of 2011*
(*a*) engaged in agriculture, promotion of tourism or construction work as defined in section 46 or section 217, being profits for any year of assessment commencing prior to April 1, 2011;	*15 per centum*
(*b*) engaged in agriculture, manufacture of animal feed, promotion of tourism, or construction work as defined in section 46 or section 217, being profits for any year of assessment commencing on or after April 1, 2011. (Section 46)	*12 per centum*
11. The rate of income tax applicable to specialized housing banks, for-	*$ 53,22 of 2011*
(*a*) any year of assessment commencing prior to April 1, 2011	*20 per centum*
(b) any year of assessment commencing on or after April 1, 2011 (Section 47)	Appropriate rate under Second Schedule.
12. The rate of income tax applicable to certain companies which are exempt from income tax under section 17 or 19, for a period of two years immediately succeeding such period of exemption (section 48)	*10 per centum*
13. The rate of income tax applicable to certain companies after the expiry of the tax exemption period, where such exemption is under section 18 or 22 (section 48)	*15 per centum*

14A. The profits and income of any agricultural undertaking referred to in section 16 of the Act, for any year of assessment commencing on or after April 1, 2011; (Section 48A)	As per the First Schedule, but subject to a maximum of 10 *per centum* for an individual, and 10 *per centum* for a company. *$ 53,22 of 2011* *$ 29, 8 of 2012*
15. The rate of income tax applicable to dividends paid out of profits and income, taxable in accordance with section 46, and any dividends received prior to April 1, 2008, from outside Sri Lanka, and other dividends referred to in section 54 (section 49, section 54 and section 55)	*$ 54, 9 of 2008*
16. The rate of income tax on qualified export profits and income of a person not being a company, who commenced to carry on any specified undertaking prior to April 1, 2014, for-	*$ 53,22 of 2011*
(*a*) any year of assessment commencing prior to April 1, 2011	As per the First Schedule, but subject to a maximum of 15 *per centum*
(b) any year of assessment commencing on or after April 1, 2011 (Section 50)	As per the First Schedule, but subject to a maximum of 12 *per centum.*
17. The rate of income tax on qualified export profits and income of a company, which commenced to carry on any specified undertaking prior to April 1, 2014, for-	*$ 53,22 of 2011*
(a) any year of assessment commencing prior to April 1, 2011;	15 *per centum*
(b) any year of assessment commencing on or after April 1, 2011 (Section 51)	12 *per centum.*
18. The rate of income tax on qualified export profits and income of a company, which commenced to carry on any specified undertaking prior to April 1, 2015, for-	*$ 53,22 of 2011*
(*a*) any year of assessment commencing prior to April 1, 2011	15 *per centum*
(b) any year of assessment commencing on or after April 1, 2011 (Section 52)	12 *per centum.*

19. The rate of income tax on dividends out of qualified export profits and income (section 53)	*10 per centum*, for any year of assessment commencing on or after April 1, 2003
20. The rate of income tax on profits and income from deemed exports of any person or partnership, for-	***$ 53,22 of 2011***
(*a*) any year of assessment commencing prior to April 1, 2011	As per the First Schedule, but subject to a maximum of 15 *per centum* for an individual, and 15 *per centum* for a company.
*(*b) any year of assessment commencing on or after April 1, 2011 (Section 56)	As per the First Schedule, but subject to a maximum of 12 *per centum* for an individual, and 12 *per centum* for a company.
21. The rate of income tax on profits and income referred to in section 57 of a resident company	*15 per centum*
22. The rate of income tax on profits and income referred to in section 58-	
(*a*) for any year of assessment commencing prior to April 1, 2011	*15 per centum*
(b) for any year of assessment commencing on or after April 1, 2011, but prior to April 1, 2014	*12 per centum* *$46(1), 8 of 2014*
(c) for any year of assessment commencing on or after April 1, 2014	*As per the First Schedule, but subject to a maximum of 12 per centum for an individual, and 12 per centum for a company*

23. The rate of income tax on profits and income from transshipment agency fees referred to in section 59-	
(*a*) for any year of assessment commencing prior to April 1, 2011	*15 per centum*
(*b*) for any year of assessment commencing on or after April 1, 2011	*12 per centum*
24. The rate of income tax applicable to any partnership on divisible profits and other income, other than on any assessment made, for-	*$ 53,22 of 2011*
(*a*) any year of assessment commencing prior to April 1, 2011	10 *per centum*
(*b*) any year of assessment commencing on or after April 1, 2011 (Section 78)	8 *per centum.*
25. The rate of income tax applicable to any person who is not a citizen of Sri Lanka carrying on the profession or vocation of an entertainer or artiste, for-	*$ 53,22 of 2011*
(*a*) any year of assessment commencing prior to April 1, 2011	15 *per centum*
(*b*) any year of assessment commencing on or after April 1, 2011 (Section 96)	12 *per centum.*
26. The rate of income tax applicable to any profits and income from petroleum exploration of any person, or in the case of a partner of a partnership, as referred to in section 105, for-	*$ 53,22 of 2011*
(*a*) any year of assessment commencing prior to April 1, 2011	15 *per centum*
(*b*) any year of assessment commencing on or after April 1, 2011 (Section 105)	12 *per centum*.
27. The rate of income tax applicable to the profits on the receipt of any fund set up or funds received by a Non Governmental Organization, for-	*$ 53,22 of 2011*
(*a*) any year of assessment commencing prior to April 1, 2011	30 *per centum*
(*b*) any year of assessment commencing on or after April 1, 2011 (Section 102)	28 *per centum.*
28. Such part of the taxable income of any person or partnership referred to in section 159, as consists of profits or income from any lottery or betting or gaming activity conducted by such person or partnership.	*40 per centum*

29. The rate of income tax applicable to such part of the taxable income of any person or partnership, as consists of profits or income from the manufacture and sale or import and sale of any liquor or tobacco product, for any year of assessment commencing on or after April 1, 2011	*$ 53,22 of 2011 w.e.f.01.04.2011* 40 *per centum*
30. Rate of income tax applicable to such part of the profits of any person engaged in an undertaking referred to in section 59A;	As per the First Schedule, but subject to a maximum of 10 *per centum* for an individual, and 10 *per centum* for a company. *$ 53,22 of 2011 w.e.f.01.04.2011*
31. The rate of income tax applicable to any undertaking carried on in Sri Lanka for operation and maintenance of facilities for storage, development of software, or supply of labour	As per the First Schedule, but subject to a maximum of 10 *per centum* for an individual, and 10 *per centum* for a company. *$ 53,22 of 2011 w.e.f.01.04.2011*
32. The rate of income tax applicable to profits and income from educational services.	As per the First Schedule, but subject to a maximum of 10 *per centum* for an individual, and 10 *per centum* for a company. *$ 53,22 of 2011 w.e.f.01.04.2011*
33. The rate of income tax applicable to profits and income of any person from any undertaking referred to in section 59B	*$46(2), 8 of 2014*

a) for any year of assessment commencing prior to April 1, 2014	*As per the First Schedule, but subject to a maximum of 10 per centum for an individual, and 10 per centum for a company.* *$ 53,22 of 2011 w.e.f.01.04.2011* *$ 30, 8 of 2012 w.e.f.01.04.2012*
(*b*) for any year of assessment commencing on or after April 1, 2014	*As per the First Schedule but subject to a maximum of 12 per centum for An individual, and 12 per centum for a company*
34. The rate of income tax in respect of profits of any person from any undertaking referred to in section 48B	As per the First Schedule but subject to a maximum of 12 *per centum* for an individual and 12 *per centum* for a company. *$ 30, 8 of 2012 w.e.f.01.04.2012*
35. Rate of income tax applicable to profits and income of any person from any undertaking referred to in section 59C, for any year of assessment falling within the five year period referred to therein.	As per the First Schedule but subject to a maximum of 12 *per centum* for an individual and 12 *per centum* for a company. *$ 30, 8 of 2012 w.e.f.01.04.2012*
36. The rate of income tax applicable to profits of any branch of a commercial bank, being a branch established after November 21, 2011 and which is solely engaged in development banking.	*$ 30, 8 of 2012 w.e.f.01.04.2012* 24 *per centum*

37. The rate of income tax applicable to profits and income of any person from research activities defined in paragraph (*i*) of subsection (1) of section 25.	As per the First Schedule, but subject to a maximum of 16 *per centum* for an individual and 20 *per centum* for a company. *$ 30, 8 of 2012* *w.e.f.01.04.2012*
38. The rate of income tax applicable to profits and income of any person from the provision of health care services.	As per the First Schedule but subject to a maximum of 12 *per centum*, for an individual and 12 *per centum* for a company. *$ 30, 8 of 2012* *w.e.f.01.04.2012*
39. The rate of income tax applicable to any grower or manufacturer of tea who has established a joint venture with a tea exporter for exporting pure Sri Lankan tea, in value added form with a Sri Lankan brand name, on the manufacturing income attributable to the tea purchased from a tea auction in Sri Lanka for that purpose by the joint venture.	12 *per centum* *$ 30, 8 of 2012* *w.e.f.01.04.2012*
40. The rate of income tax applicable to profits and income of any person engaged in the manufacture (locally) of handloom products.	As per the First Schedule but subject to a maximum of 12 *per centum* for an individual and 12 *per centum* for a company *$ 30, 8 of 2012* *w.e.f.01.04.2012*

41. The rate of income tax applicable to such part of the profits and income of any person engaged in an undertaking for poultry farming referred to in section 46A –	As per the First Schedule, but subject to a maximum of 10 *per centum* for an individual, and 10 *per centum* for a company.
42. The rate of income tax applicable to such part of the profits and income of any person from any undertaking referred to in section 56A-	*12 per Centum* *$46(3), 8 of 2014*
43. The rate of income tax applicable to such part of the profits and income of any person from any undertaking referred to in section 56B-	As per the First Schedule, but subject to a maximum of 12 *per centum* for an individual, and 12 *per centum* for a company.
44. The rate of income tax applicable to such part of the profits and income of any person from any undertaking referred to in section 56C –	As per the First Schedule, but subject to a maximum of 12 *per centum* for an individual, and 12 *per centum* for a company.
45. The rate of income tax applicable to such part of the profits and income of any person or partnership from any undertaking referred to in section 59E-	As per the First Schedule, but subject to a maximum of 12 *per centum* for an individual, and 12 *per centum* for a company.
46. Repealed	*$46(4), 8 of 2014 (Repealed w.e.f.01/01/2016)* *[$ 39, 9 of 2015]*
Any person or partnership carrying on an enterprise, having an annual turnover of a sum not exceeding rupees one hundred million who is liable to pay income tax under the Inland Revenue Act, No. 10 of 2006, who has defaulted in the payment of such tax as is payable by him under such Act in respect of any year of assessment ending on or before March 31, 2010, due to the existence generally of any conflict environment or due to any financial constraints of such persons or partnership, shall be exempted from the payment of such tax as is in default under such Act:	Exemption of income tax payable by certain small and medium enterprises. *$ 55,22 of 2011 w.e.f.01.04.2011*

Provided that, the Commissioner-General of Inland Revenue shall on a request made in that behalf, issue to such person or partnership a Certificate of Exemption in respect of the tax in default:

Provided further, the person or partnership to whom the Certificate of Exemption is issued, shall simultaneously forward to the Commissioner-General of Inland Revenue a written assurance to the effect that such person or partnership will be responsible for the payment of all sums which may become payable by him under such Act, in respect of any year of assessment commencing on or after April 1, 2010.