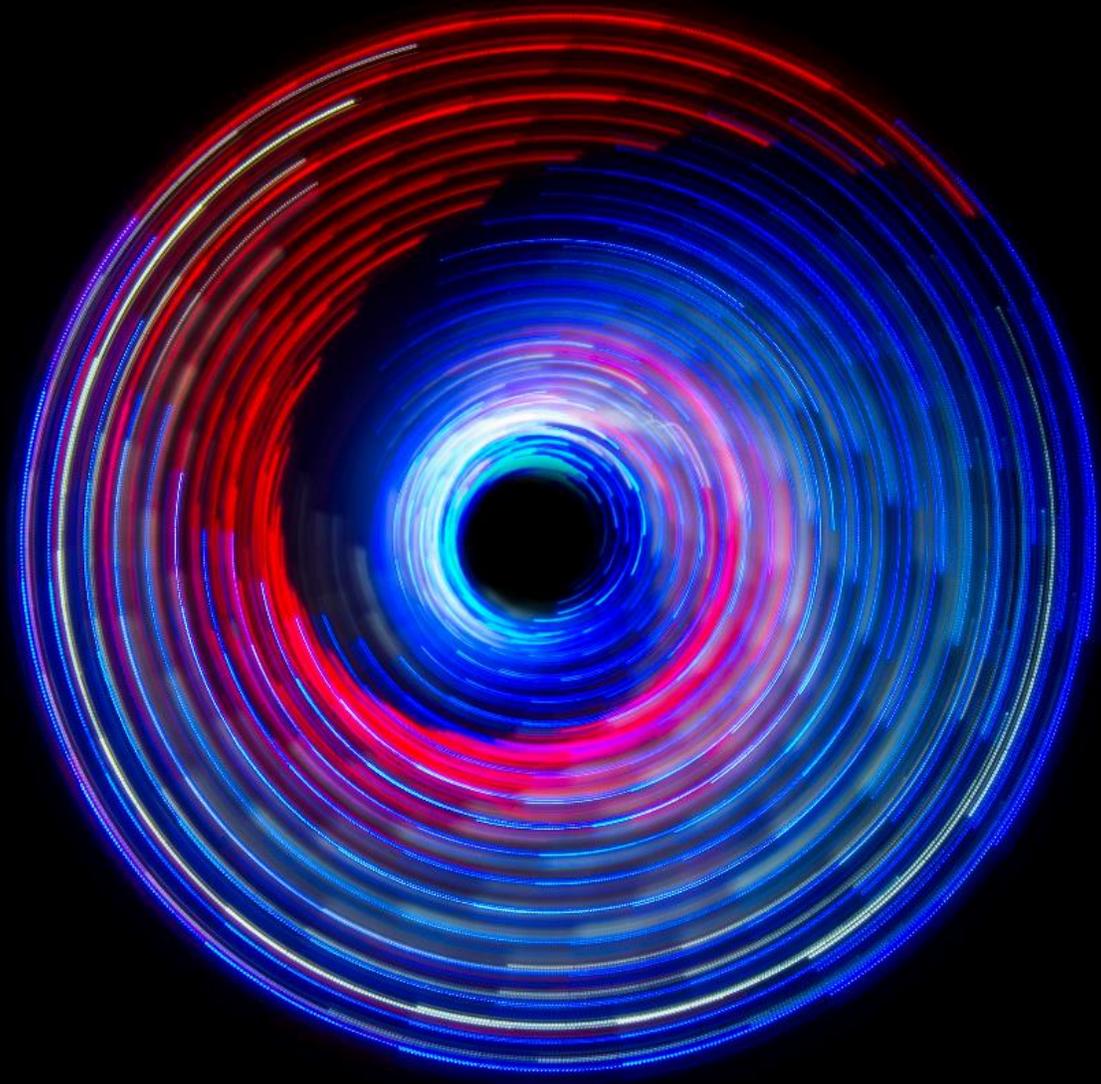


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Tax update

Personal income tax compliance

April 2020

Tax deduction on cumulative income from employment income (for 1 January–31 March 2020)

The notice no. PN/PAYE/2020-01, dated 15 April 2020 and published on the web portal of the Department of Inland Revenue (DIR) on 22 April 2020, carries further changes to the treatment of employment income. These changes are summarised below.

- Employers are allowed to make the tax payment of employees under the pay as you earn (PAYE) scheme for a three-month period (1 January 2020 to 31 March 2020).
- The payment can be made by deducting the tax from the respective employees' remuneration or by any other manner, with the respective **employees' consent**.
- Employers must inform the employees of the said notice and offer them an option to deduct tax from the remuneration/collection of tax from employees during the period and make payments to the DIR on their behalf.
- Employers also have an option of bearing the tax on behalf of employees.
- Employers can calculate the tax liability of the respective employees as set out below. Tax on tax will apply if employers bear the tax on behalf of employees.

Deduction of tax on primary employment

Cumulative gains and profits from employment for the period 1 January 2020 to 31 March 2020 (LKR)	Income tax rate
0–750,000	Nil
750,001–1,500,000	6 percent less LKR 45,000
1,500,001–2,250,000	12 percent less LKR 135,000
2,250,001 and above	18 percent less LKR 270,000

Tax for the period 1 January 2020 to 31 March 2020 LKR)	Tax on tax rate
0–42,300	6.38 percent
42,301–121,500	13.64 percent
121,501 and above	21.95 percent

Deduction of tax on secondary employment

The tables below will apply for the deduction of tax from gains and profits from employment in the following instances:

- The employee has not furnished the primary employment declaration.
- The employee is employed under more than one employer.

Cumulative employment income from primary employment for the period of 1 January 2020 to 31 March 2020 (LKR)	Cumulative income from second employment for the period of 1 January 2020 to 31 March 2020	Income tax rate
750,001–1,500,000	Cumulative second employment Income	6 percent
1,500,001–2,250,000		12 percent
2,250,001 and above		18 percent

Cumulative employment income from primary employment for the period of 1 January 2020 to 31 March 2020 (LKR)	Income from second employment for the period of 1 January 2020 to 31 March 2020	Tax on tax rate (on the income from second employment)
750,001–1,500,000	Cumulative Second Employment Income	6.38 percent
1,500,001–2,250,000		13.64 percent
2,250,001 and above		21.95 percent

- The duly calculated tax liability must be paid as PAYE tax on or before 15 May 2020. Online payments can be made per the notice no. PN/PMT/2020-1 dated 8 April 2020 issued by the DIR.
- The details of such liability/payment shall be declared in the PAYE Annual Declaration of the employer for the year of assessment 2019/2020 that is due to be submitted on or before 31 May 2020.

As referenced in the previous notice no. PN/IT/2020-03 (revised) dated 8 April 2020, the DIR has taken steps to introduced a system of advance personal income tax with effect from 1 April 2020, in lieu of PAYE tax for employees' preferring to meet payment compliance obligations, through deductions from employment income by employers. An overview of the APIT mechanism is presented below.

Advance personal income tax (APIT): Year of assessment 2020-21

The DIR has issued guidelines effective from 1 April 2020 vide the DIR notice no. PN/APIT/2020-01 dated 20 April 2020, on the application of APIT introduced in lieu of the PAYE tax abolished with effect from 1 January 2020.

These guidelines provide instructions to employers on the deduction of APIT from the employment income. The tax deduction tables for APIT have been uploaded on the DIR website (www.ird.gov.lk).

Upon receiving the consent of employees who meet the definition of a "resident" under the Inland Revenue Act no. 24 of 2017 (IR Act), employers will be required to remit the APIT to the DIR by deducting (or per any alternative arrangement) from their remuneration. However, in case of payments to non-resident employees and payment of terminal benefits, the employee's consent is not required for the employer to deduct and remit the APIT.

A progressive tax rate, maximum of 18 percent, is applicable to both resident and non-resident individuals. Further, **resident individuals** and **non-resident individuals who are citizens** are entitled to a personal relief of LKR 3 million per annum/LKR 250,000 per month.

Along with the APIT tables, the DIR has published a revised guideline in respect of the values to be considered for non-cash benefits given to an employee. This notice has been attached, along with this tax alert for your information.

A brief summary on the application of the APIT tables is provided below.

APIT table reference		Application
Table no.	Table heading	
1	Monthly tax deductions from regular profits	<p>Table 1 will apply in respect of the deduction of tax from regular profits from employment exceeding LKR 250,000 per month payable to every employee who is a:</p> <ul style="list-style-type: none"> • Resident (<i>who has given consent to deduct APIT on gains and profits from employment</i>) • Non-resident* who is a citizen (<i>consent to deduct APIT is not required</i>) <p>However, there is a condition. The employee must furnish a primary declaration of employment. In the absence of such a declaration, table 7 will apply.</p> <p>The tax rate on the income of non-resident individual is applicable in progressive rate, subject to a maximum of 18 percent as applicable to resident individuals.</p> <p>The personal relief of LKR 250,000 per month has been considered under table 1.</p> <p><i>* For a non-resident employee who is a non-citizen, table 4.1 will apply.</i></p>

APIT table reference		Application
Table no.	Table heading	
2	Rates for the deduction of tax from lump-sum payments	<p>Table 2 applies in respect of the deduction of tax on lump-sum payments (e.g., bonus.) received or derived by an employee who is a:</p> <ul style="list-style-type: none"> • Resident (who has given consent to deduct APIT on gains and profits from employment.) • Non-resident* (consent to deduct APIT is not required) <p>The tax payable for the month on the lump-sum payment should be computed on the estimated gross aggregate remuneration as detailed in the respective table.</p> <p>The personal relief of LKR 3 million is considered in computing the APIT on lump-sum payments.</p> <p><i>* For a non-resident employee who is a non-citizen, table 4.2 will apply.</i></p>
3	Rates for the deduction of tax from once-and-for-all payments, i.e., terminal benefits	<p>The deduction of APIT on terminal benefits payable to any resident employee must be done in line with the DIR circular no. SEC/2020/02 dated 18 February 2020, <i>i.e., the Guideline for Employees Trust Fund, provident funds and employers to retain amount, in lieu of income tax of employees from once-and-for-all payments (terminal benefits)</i></p> <p>The employee's consent is <u>not</u> required to deduct tax on terminal benefits.</p>
4	Tax deduction from any profits from employment of non-resident employees who are non-citizens in Sri Lanka	<p>Under table 4, the non-resident employee's consent is not required to deduct APIT.</p> <p>Personal relief does not apply to non-resident employees who are non-citizens of Sri Lanka. The APIT tables have been prepared taking into consideration the above point and apply in respect of the following:</p> <ul style="list-style-type: none"> • On regular gains and profits from employment (Table 4.1) • On lump-sum payments (Table 4.2)
5	Deduction of tax on cumulative gains and profits from employment	<p>Table 5, which is the annual tax deduction table, applies to employees who are residents or citizens.</p> <p>It is applicable in the following instances:</p> <ul style="list-style-type: none"> • Where monthly regular gains and profits from employment is less than LKR 250,000, but the cumulative profits from employment up to any month in the year of assessment exceed LKR 3,000,000, due to payment of higher regular gains and profits from employment in certain months.

APIT table reference		Application												
Table no.	Table heading													
		<ul style="list-style-type: none"> An employee enters into employment or retires during the year of assessment (i.e., earns regular gains and profits from employment for a period of less than 12 months) <p>Tax deduction should commence in the month in which cumulative gains and profits exceed LKR 3,000,000. Thereafter, tax deduction should be made monthly until the end of the year of assessment using this table.</p>												
6	Tax on tax rates	<p>Tax on tax arises in the following instances:</p> <ul style="list-style-type: none"> When an employer or any other person settles an employee's income tax liability, without deducting the tax from the employee's salary Reimbursement of the income tax deducted from the employee's salary by the employer already <table border="1"> <thead> <tr> <th>Monthly tax (LKR)</th> <th>Cumulative tax (LKR)</th> <th>Tax on tax rate</th> </tr> </thead> <tbody> <tr> <td>0-14,100</td> <td>0-169,200</td> <td>6.38 percent</td> </tr> <tr> <td>14,101-40,500</td> <td>169,201-486,000</td> <td>13.64 percent</td> </tr> <tr> <td>40,501 and above</td> <td>486,001 and above</td> <td>21.95 percent</td> </tr> </tbody> </table>	Monthly tax (LKR)	Cumulative tax (LKR)	Tax on tax rate	0-14,100	0-169,200	6.38 percent	14,101-40,500	169,201-486,000	13.64 percent	40,501 and above	486,001 and above	21.95 percent
Monthly tax (LKR)	Cumulative tax (LKR)	Tax on tax rate												
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14,101-40,500	169,201-486,000	13.64 percent												
40,501 and above	486,001 and above	21.95 percent												
7	Rate for the deduction of tax from the second employment	<p>Table 7 applies in the following instances in respect of deduction of tax from the gains and profits from employment.</p> <ul style="list-style-type: none"> The employee has not furnished the primary employment declaration. The employee is employed under more than one employer. <p>The tax is applicable as follows.</p> <p>Resident employee</p> <p>The following table applies to an employee who is a resident (as defined under the IR Act) and a declaration has been given to the employer granting consent to deduct tax on such profits.</p> <p>The rate applicable is dependent on the income from primary employment as declared by the employee in the declaration.</p> <table border="1"> <thead> <tr> <th>If monthly profits from prime employment (LKR)</th> <th>Monthly profits from second employment (LKR)</th> <th>Tax rate on second employment</th> </tr> </thead> <tbody> <tr> <td>Upto 250,000</td> <td rowspan="3">On the amount from second employment</td> <td>6 percent</td> </tr> <tr> <td>250,001 - 500,000</td> <td>12 percent</td> </tr> <tr> <td>500,001 and above</td> <td>18 percent</td> </tr> </tbody> </table>	If monthly profits from prime employment (LKR)	Monthly profits from second employment (LKR)	Tax rate on second employment	Upto 250,000	On the amount from second employment	6 percent	250,001 - 500,000	12 percent	500,001 and above	18 percent		
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Upto 250,000	On the amount from second employment	6 percent												
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APIT table reference		Application				
Table no.	Table heading					
		<p>Non-resident employee</p> <p>The following table applies to non-resident employees (irrespective of Sri Lankan citizenship).</p> <p>The employee's consent is not required in this instance to deduct APIT, unless a direction is issued by the Commissioner General or any officer authorised by him (the secretariat).</p> <table border="1"> <thead> <tr> <th>Monthly profits from employment (LKR)</th> <th>Tax rate</th> </tr> </thead> <tbody> <tr> <td>On any amount</td> <td>18 percent</td> </tr> </tbody> </table>	Monthly profits from employment (LKR)	Tax rate	On any amount	18 percent
Monthly profits from employment (LKR)	Tax rate					
On any amount	18 percent					

Employer's obligations

- The employee's consent must be obtained as required for the deduction of APIT.
- Every tax deduction under the APIT scheme during a month should be remitted to the DIR on or before the 15th day of the following month.
- An APIT certificate should be issued to employees, including those for whom zero tax is deducted in the absence of consent, before 30 April of the subsequent year of assessment or where employment ceases during the year of assessment, not more than 30 days from the date of ceasing employment.
- Furnish the annual statement, with schedules to the commissioner general by 30 April every year.

Employee's obligations

- The employee must furnish the primary employment declaration to the primary employer.
- Unlike PAYE, the APIT deducted tax does not become a final tax. The employee will be required to file a tax return irrespective of the APIT deduction. The DIR has facilitated the online application process for obtaining a Taxpayer Identification Number (TIN).

Payments could be made online as instructed under a DIR notice no. PN/PMT/2020-1 dated 8 April 2020.

Penalty and interest on non-payment

- A penalty equal to 20 percent of the due tax, but not paid will apply in case of a failure to pay/or remit all or part of the tax for a tax period within 14 days of the due date.
- An interest equal to 1.5 percent per month or part month will apply on the amount of tax, if the tax is not paid by the due date.

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