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உள்நாட்டு இறைவரித் திணைக்களம்
INLAND REVENUE DEPARTMENT

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CALCULATION OF INCOME TAX PAYABLE FOR THE YEAR OF ASSESSMENT COMMENCING ON APRIL 1, 2022

In terms of the provisions of the Inland Revenue Act, No. 24 of 2017 (IRA), as amended by the Inland Revenue (Amendment) Act, No. 10 of 2021 and 45 of 2022, Income Tax Payable for the Year of Assessment 2022/2023 (April 1, 2022 to March 31st 2023) shall be calculated separately for two periods: "First Period" and "Second Period" . This guideline is issued to clarify such calculation and related matters for taxpayers.

1. Calculation of Income Tax Payable by Individuals

(a) Income tax payable for the above year of assessment shall be computed separately for two periods of the year of assessment, as first 9 months (In case of Individuals, herein after referred to as "First Period") and second 3 months (In case of Individuals, herein after referred to as "Second Period").

(b) Employment Income, Investment Income and Other Income included in the taxable income shall be calculated separately for the above mentioned two periods on actual basis (In line with Section 21 of the IRA).

(c) Business income included in the taxable income could be separated into two periods either by using pro-rata basis (75% for First Period and 25% for Second Period) or actual basis.

(d) Qualifying payments are deductible either from First Period, Second Period or from both periods in arriving the taxable income of respective period, but subject to the provisions of Fifth Schedule to the IRA. However, the maximum deductible amounts should be calculated for the year of assessment and the total deduction (First Period deduction + Second Period deduction) for the year of assessment should not be exceeded such maximum deductible amount.

(e) Subject to the conditions of relevant subparagraphs of paragraph 2 of Fifth Schedule to the IRA, reliefs are deductible as follows.

(i) Personal relief for resident individuals and Sri Lanka citizen individuals

First Period = Rs. 2,250,000

Second Period = Rs. 300,000

Any amount which is not deducted in a respective period shall not be allowed to be transferred to the other period.

(ii) Rent relief for resident individuals

Depend on the total rent income of the respective period, relief is deductible subject to the subparagraph (c) of paragraph 2 of the Fifth Schedule.

(iii) Expenditure relief for resident individuals

Expenses specified in subparagraph (f) of paragraph 2 of the Fifth Schedule incurred during the First Period are deductible in that period up to a total sum of Rs. 900,000.

(iv) Solar panel relief for resident individuals

Up to a maximum limit of Rs. 600,000 for the year of assessment, relief could be deducted either from First Period, Second Period or from both periods.

(f) The gross income tax payable shall be calculated separately for two periods by applying the relevant rates of income tax set out in the First Schedule to the IRA as amended.

(g) Tax credits could be deducted from the aggregate gross income tax payable amount of the year of assessment.

2. Calculation of Income Tax Payable by Companies, including Trusts, Unit Trusts or Mutual funds and Non-Governmental Organizations

(a) Income tax payable for the above year of assessment shall be computed separately for two periods of the year of assessment, as first 6 months (In case of Persons other than Individuals, herein after referred to as "First Period") and second 6 months (In case of Persons other than Individuals, herein after referred to as "Second Period")

(b) Investment Income and Other Income included in the taxable income shall be separated into two periods on actual basis (In line with Section 21 of the IRA).

(c) Business income included under the taxable income could be separated in to two periods either by using pro-rata basis (50% for First Period and 50% for Second Period) or actual basis.

(d) In calculating business income on actual basis, Finance Cost incurred and accounted for respective period could be deducted in calculating the business income of relevant periods, subject to the provisions of the IRA as amended. However, total amount deducted in the two period (First Period deduction + Second Period deduction) shall not exceed the limit specified in Section 18 of the IRA <u>for the year of assessment.</u> Such limit should be calculated <u>for the year of assessment</u> and any adjustment to comply with maximum deductible amount could be made between two periods according to the proportion of such actual expenditure of the respective period or on pro-rata basis (as

50% for First Period and balance 50% for Second Period).

(e) Qualifying payments are deductible either from First Period, Second Period or from both periods in arriving the taxable income of respective period subject to the provisions of fifth schedule to the IRA. Accordingly, maximum deductible amounts should be calculated for the year of assessment and the total deduction (First Period deduction + Second Period deduction) of the year of assessment shall not exceed that maximum deductible amount.

(f) The gross income tax payable shall be calculated separately for two periods by applying the relevant rates of income tax set out in the First Schedule to the IRA as amended.

(g) Tax credits could be deducted from the aggregate gross income tax payable amount of the year of assessment.

3. Common Guidelines

(a) In order to calculate the business income for two periods of the year of assessment on actual basis, taxpayers are required to prepare separate financial statements for relevant periods. Such separate financial statements shall not require to be an audited financial statement. However, amounts declared in such separate financial statements shall be justifiable in a tax audit of a tax official. Further, taxpayers are required to comply with Section 120(1A) of the IRA as well in preparing such separate financial statements.

(b) In calculating business income on actual basis, brought forward business losses or business losses incurred during the First Period (first 9 months for individuals and first 6 months for other taxpayers excluding individuals) are deductible either from First Period, Second Period or from both periods in arriving the taxable income of respective period subject to the provisions of the IRA.

In terms of Section 19(3) of the IRA, as amended with effect from 01.10.2022, where a person had incurred a loss, in relation to a business which if it had been a profit would have been taxable at a rate specified under the IRA and such rate is subsequently increased, such loss shall not be considered as being taxable at a reduced rate. Therefore, if applicable tax rate of gains and profits from business is increased with effect from 01.10.2022, brought forward business losses and losses incurred during the First Period from such business could be deducted in calculating business or investment income irrespective of the reason that such losses are reduced rate losses (but subject to the other provisions of Section 19).

In any case where a taxpayer incurred and calculated a business loss in the Second Period (second 3 months for individuals and second 6 months for other taxpayers excluding individuals), such business loss could not be carried back to the First Period (First 9 months for individuals and first 6 months for other taxpayers excluding individuals). If such business loss of Second Period is deductible from other business or investment income of Second Period subject to the provisions of the IRA, it shall be deducted from such Second Period income and if not, same shall be carried forward to the next year of assessment. Business or investment losses could also be deducted from investment income in complying with same procedure, but subject to the provisions of the IRA.

If applied pro-rata basis, business income should be calculated prior to the deduction of business losses in terms of the provisions of the IRA and then such business income should be separated into two periods. Thereafter, in calculating assessable income from business, business losses should be deducted separately in two periods as in above paragraphs.

(c) In calculating business income on actual basis, Marketing and Communication Expenses incurred and accounted for respective period could be deducted with additional deduction subject to the provisions of the IRA as amended, for such respective periods. However, total additional deduction amount deducted in the two periods (First Period deduction + Second Period deduction) shall not exceed the maximum deductible amount (Rs. 500,000,000) provided in the IRA for the year of assessment. Any adjustment to comply with maximum deductible amount could be made between two periods according to the proportion of such actual expenditure of the respective period or on pro-rata basis (as 75% for First Period and balance 25% for Second Period by individuals and 50% for First Period and balance 50% for Second Period by persons other than individuals).

(d) In calculating business income on actual basis, Research and Development Expenses incurred and accounted for respective period could be deducted with additional deduction subject to the provisions of the IRA as amended, for such respective periods.

(e) In calculating business income on actual basis by a non-resident person, Head Office Expenditure deductible for respective periods subject to the provisions of the IRA. However, no deduction shall be allowed for head office expenditure where the total amount (First Period deduction + Second Period deduction) would exceed ten per cent of the person's assessable income <u>of the year of assessment</u>.

(f) In calculating business income on actual basis, deduction amounts such as capital allowances, enhanced capital allowances, bad debts, specific provision for a debt claim should be calculated <u>for the year of assessment</u> subject to the provisions of IRA and such amount could be separated for two periods as 75% for First Period and balance 25% for Second Period by individuals and 50% for First Period and balance 50% for Second Period by persons other than individuals.

(g) In calculating business income on actual basis, gains from the realization of capital assets and liabilities of the business, and assessable charges and balancing allowance required to be included by the Fourth Schedule to the IRA on the realization of the depreciable assets of the business should be recognized for the respective period of the realization of such relevant asset.

4. Partnerships

Since there is no tax rate changes applicable for Partnerships, it is not required to separately calculate their income tax payable for two periods: First Period and Second Period. However, in computing the income tax payable of the partners (individuals or persons other than individuals), guidelines referred to in item 1 or 2 as the case may be and 3 could be applied appropriately.

5. Charitable Institutions, Employees Trust Funds, Provident, Pension or Gratuity Fund and Termination Funds

Since there are no tax rate changes applicable for above entities, they are not required to separately calculate their income tax payable for two periods.

6. Trust or companies who uses accounts based on an alternative period of twelve months to compute income tax payable for the above year of assessment

In terms of Section 20 (1) of the IRA, the "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.

In terms of Section 20 (2) of the IRA as amended, Where a trust or company is unable to submit the accounts for the period of twelve months of the year of assessment as provided in subsection (1), such trust or company may apply to the Commissioner-General requesting that the **accounts based on an alternative period of twelve months be used to compute the income tax payable for a given year of assessment**. The Commissioner- General may approve such request on such terms and conditions as he thinks fit. The Commissioner-General may revoke such approval if the trust or company fails to comply with terms and conditions attached to the approval.

Therefore, twelve months period for all persons are same for **every year of assessment** and accordingly, application of taxing rules is also same for trusts and companies who uses accounts based on an alternative period of twelve months to compute income tax payable for the year of assessment 2022/2023. Therefore, such trusts and companies shall be computed their income tax payable amounts separately for two periods of the year of assessment, as First Period (first 6 months) and Second Period (second 6 months). Accounts prepared for an alternative period should be used to compute the income tax payable as First Period and Second Period. Therefore, above guidelines are applicable for such persons without any change.

7. Submission of Revised Estimate (Revised SET)

By complying with Section 38 of the Inland Revenue (Amendment) Act, No. 45 of 2022, taxpayer may submit a revised estimate for the above year of assessment, for the purpose of tax payable by instalments, prior to May 15, 2023.

Example 1 : Mr. Perera is an accountant who is working as an employee of the company "Beta". He practiced as a tax practitioner and derived following income and made following payments during the year of assessment 2022/2023.

Description	First 9 months (Rs.)	Second 3 months (Rs.)	Year of Assessment
Employment income (cash and non-cash) as per T-10 Form	3,150,000	1,050,000	4,200,000
Adjusted business profit (tax practitioner) – Mr. Perera calculated business income of			4,000,000

the year of assessment in accordance with the IRA provisions.			
Rent income (cash received in each months)	1,800,000	600,000	2,400,000
Gross interest income – fixed deposit interest – Fixed Deposits matured in relevant periods	400,000	300,000	700,000
Gross dividend income (company Alpha declared and paid dividend from its profits on 10.07.2022 and 20.03.2023)	80,000	120,000	200,000
Medical bill expenses – Mr. Perera	400,000	200,000	600,0000
Local education expenses – Son of Mr. Perera	200,000	150,000	350,000
Donation to a Government Hospital			200,000
Brought Forward amount of Solar Panel Expenditure incurred during the Y/A 2021/2022			2,400,000
APIT on employment income		157,500	157,500
AIT on interest		15,000	15,000
AIT on dividend		18,000	18,000
Quarterly Payments (1^{st} , 2^{nd} and 3^{rd})			450,000

Computation of income tax payable by Mr. Perera for the Year of Assessment 2022/2023 is as follows.

Income	**First Period (Rs.)**	**Second Period (Rs.)**	**Total (Rs.)**
Employment income	3,150,000	1,050,000	4,200,000
Business Income (applied pro-rata basis of 75% and 25% for two periods)	3,000,000	1,000,000	4,000,000

Investment Income (rent + interest + dividend)	2,280,000	900,000*	3,180,000
Total Assessable Income	**8,430,000**	**2,950,000**	**11,380,000**
Less: qualifying payments and reliefs			
Rent Relief	(450,000)	(150,000)	(600,000)
Expenditure Relief (Maximum Deductible = Rs. 900,000)	(600,000)	-	(600,000)
Solar panel relief (decided to deduct the total amount in second period)	-	(600,000)	(600,000)
Personal Relief	(2,250,000)	(300,000)	(2,550,000)
Government Donation (decided to deduct the total amount in second period)		(200,000)	(200,000)
Taxable Income	**5,130,000**	**1,700,000**	**6,830,000**
Gross Income Tax Payable	405,000+ [(5,130,000-4,500,000)*18%] =518,400	112,500 + [(1,700,000 - 625,000)*36%] = 499,500	1,017,900
Less: Tax Credits			
APIT			(157,500)
AIT on interest			(15,000)
Quarterly Payments			(450,000)
Balance Payable (4th Quarter and Final Payment)			395,400

* Dividend subjected to AIT at 15% is a final withholding payment and same could be excluded from investment income

Example 2

Following information are from the financial statements of Paulino (Pvt) Ltd for the year ended 31st March 2023. Its business income derived from the manufacturing activities as defined in IRA.

Rs. '000

Description	**First Period (Rs.)**	**Second Period (Rs.)**	**Year of Assessment**

Business Income as per Income Statements prepared separately, after the adjustments for disallowable expenses as provided in the IRA	900,000	250,000	1,150,000
Following deductions / adjustments have not been made from above business income			
Finance Cost	12,600	2,800	15,400
Marketing and Communication Expenses (total expenditure qualifies for additional deduction)	450,000	120,000	570,000
Capital allowances calculated as provided in the IRA			32,000
Assessable Charges	-	1,500	1,500
Balancing Allowance	3,000	-	3,000
Bad Debts			6,000
Research Expenses (qualify for additional deduction)	1,000	3,000	4,000
Other Information			
Interest Income	8,000	1,300	9,300
Dividend (received from subsidiary declared out of its profit)	4,000	-	4,000
Donation to an approved charity conducting an elders home	1,000		1,000
AIT on interest		350	350
Quarterly Payments (1^{st}, 2^{nd} and 3^{rd})			3,000
Finance cost limitation calculated for the year of assessment, in terms of Section 18 of the IRA			12,000
Brought Forward finance cost from year of assessment 2020/2021			3,200

Computation of income tax payable by Paulino (Pvt) Ltd for the Year of Assessment 2022/2023 is as follows.

	Income	First 6 Months (Rs.)	Second 6 Months (Rs.)	Total (Rs.)
Business Income				
	Business Income as per Income Statements	900,000	250,000	1,150,000

Adjustments for			
Finance Cost	(12,600)	(2,800)	(15,400)
Disallowable and Carried Forward finance cost = 15,400-12,000 = 3,400 (distributed according to the actual expenditure proportion)	2,782	618	3,400
Marketing and Communication Expenses	(450,000)	(120,000)	(570,000)
Additional Deduction for Marketing and Communication Expenses	(450,000)	(120,000)	(570,000)
Adjustment of additional deduction for Marketing and Communication Expenses 570,000-500,000 = 70,000 (distributed according to the actual expenditure proportion)	55,263	14,737	70,000
Capital Allowances	(16,000)	(16,000)	(32,000)
Assessable Charges	-	1,500	1,500
Balancing Allowance	(3,000)	-	(3,000)
Bad Debts	(3,000)	(3,000)	(6,000)
Research Expenses	(1,000)	(3,000)	(4,000)
Additional Deduction for Research Expenses	(1,000)	(3,000)	(4,000)
Business Income/(Loss)	**21,445**	**(945)**	**20,500**
Investment Income			
Interest	8,000	1,300	9,300
Dividend	4,000	-	4,000
Investment Income	**12,000**	**1,300**	**13,300**
Total Assessable Income	**33,445**	***355**	**33,800**
Qualifying Payment (subject to an upper limit of Rs. 500,000 or 1/5th of the taxable income, whichever is less)	(145)	(355)	(500)
Taxable Income	**33,300**	**-**	**33.300**

	Gross Income Tax Payable	33,300*18% =5,994	-	5,994
Less: Tax Credits				
	AIT on interest			(350)
	Quarterly Payments			(3,000)
	Balance Payable (4th Quarter and Final Payment)			2,644

* Applicable tax rate for gains and profits from manufacturing has increased 18% to 30% with effect from 01.10.2022 and accordingly loss incurred in that business shall not be considered as reduced rate loss with effect from 01.10.2022. Therefore, such business loss could be deducted from the investment income of the second period.

**No unused limitation to deduct brought forward finance cost. Carried forward finance cost from year of assessment 2020/2021 is Rs. 3,200,000 and 2022/2023 is Rs. 3,400,000

D.R.S. Hapuarachchi
Commissioner General of Inland Revenue

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