



GUIDE TO FILLING THE RETURN & SCHEDULES – RESIDENT INDIVIDUALS

YEAR OF ASSESSMENT 2008/2009

Purpose of this Guide – This guide is intended to assist you in completing your return of income and Schedules to the Return, and computing income tax due for the above year of assessment.

If you require further assistance, please consult the Assessor dealing with your Income Tax file or any Assessor in a Regional Office of this Department nearest to you.

The scheme of this Guide – The Return entails eleven Schedules and a form to declare your Assets & Liabilities. (Please note that there is no separate computation sheet for you to keep as a record. You may keep a photo copy of the completed Return and its Schedules for your records). **The return is sent in the language which you have chosen as your preferred language.**

Each clarification is given in the guide under the respective heading of the Return Form with a reference to the number of the related Schedule. If the space provided in Schedules is not sufficient, you may use a separate sheet.

Spouse or Child-

- (a) Your spouse is treated as a separate individual for tax purposes and **accordingly, the spouse is required to furnish a separate Return of his/her income.**
- (b) The income of an unmarried child below 18 years of age being a child of a resident individual (resident parent) is aggregated with that of such child's father, if the marriage of the parents subsists. Where the marriage of parents does not subsist, the income of a child is aggregated with that of the parent who maintains that child and with whom the child lives. If you are such a parent, having such a child please include in your return the income of that child. (Such aggregation does not apply to any non-resident parent).
- (c) If your spouse or any unmarried child over 18 years of age had income exceeding Rs.300,000 for the period 01.04.2008 to 31.03.2009, please request him/her to obtain necessary return forms from the Deputy Commissioner of the Unit or Office in which your Income Tax file is dealt with.

Exemption Limit - If your assessable income for the year of assessment does not exceed Rs.300,000, you are not liable to pay income tax. However, interest on deposits or dividends can be charged with (final) withholding tax.

Return & Supporting documents – Income tax is payable on the current year basis. You should declare in the Return form the particulars of the respective income for the period from 01.04.2008 to 31.03.2009.

Statements of accounts, documents in support of qualifying payments, Certificates of WHT, PAYE T- 10 Certificates, and copies of paying-in-slips of self assessment tax payments should be attached to the return. **You are required to indicate your National Identity Card (NIC) Number in the relevant cage provided in the last page of the Return**

The duly completed Return Form along with the Schedules and other required documents should be posted or delivered to the Unit/Branch or Regional Office where your income tax file is dealt with, to reach the respective office on or before **30th November, 2009.**

The law provides for the imposition of a penalty on any person who fails to furnish a Return as of the due date, or makes an incorrect Return.

PART - 1

DECLARATION OF PROFITS AND INCOME LIABLE TO TAX

01. Income from Employment: (Schedule - 1)

(1) **Liable Income** – The following receipts should be included under employment income:

(a) **Benefits in Money -**

- * Any wage , Salary, Bonus, Commission, Leave pay, Overtime pay, Fee, Gratuity, Perquisite, Allowance or any other payment received in the course of employment, or Any pension;
- * Withdrawals made prior to the retirement, from an approved Provident Fund;
- * Entertainment allowance, Traveling allowance or any other allowance received;
- * Tips, Rewards or other receipts whether legal or otherwise;
- * Any allowance granted for the purchase of a vehicle.

(b) **Benefits not in Money-**

- * Value of free medical facilities, fuel, electricity, etc., received by you or any member of your family;
- * Any payment by the employer to any other person for your benefit or the benefit of your family (e.g. payment of income tax, life insurance premiums, servants' wages etc.)
- * Value of free transport (if you use a motor vehicle owned by the Employer or the Employer bears the cost of fuel etc. on your own vehicle for your private traveling, please refer to the gazette Extraordinary No.1479/6 of January 9, 2007 for value of benefits.) However, the value of any free transport by motor coach provided by an Employer to travel between your residence and office is not liable to tax;
- * Value of holiday warrants or passages granted to you, or to your family;
- * Rental value of rent free quarters provided by the Employer or excess of rental value over the rent paid by you for quarters provided by the Employer at a reduced rent.

The income to be declared as rental value (as above) is subject to an upper limit of Rs.120,000 if the employee's other employment income (excluding terminal benefits, etc.) does not exceed Rs. 1,800,000. If such other employment income of an employee exceeds Rs. 1,800,000, the upper limit of the amount to be declared as income is Rs. 180,000/-.

Rental Value – Rental Value of a residence means its Rating Assessment increased by the Rates for the year, or the gross rent paid to the owner for such place of residence, whichever is higher.

The Total of benefits in money and benefits not in money should be declared in cage 103 of Schedule 1

(c) **Once-and-for-all receipts (terminal benefits)- (Cage 104 of Schedule 1)**

- * Retiring gratuity;
- * Commuted pension;
- * Compensation for loss of office;

- * Sums paid from an approved Provident Fund or any Regulated Provident Fund, at the time of retirement;
- * Sums paid from the employees Trust Fund

(2) Taxation of Employment income from Government institution: -

- employment of Government institution (including other paid out of voted allocation from the consolidated fund, or provincial funds) are required to compute the total statutory income having included therein the employment income computed under normal rules.
- thereafter, a tax credit can be deducted from such tax, in the proportion of official emoluments (other than any pension, bonus, incentive payment, rewards, share of fine or other similar payment) to the total statutory income.
- no any tax is deducted by the employer. Any tax payable by the employee is required to be paid under the self assessment basis.
(refer PART 3).

02. Profits from Trade, Business Profession or Vocation: (Schedule - 2)

Declare the income adjusted for tax purposes in the last column of Schedule 2. Income adjusted for tax purposes means the net income after deducting all expenses and outgoings (other than those which are not deductible in terms of provisions of the Inland Revenue Act) incurred in the production of such income. Indicate the name, nature and address of the trade, business, profession or vocation. Attach statement of accounts and tax computation.

Sale of shares –

Any profit from the sale of shares etc. is exempt from income tax, if the ‘share transaction levy’ is paid in relation to that transaction.

The total income from Trade, Business, Profession or Vocation (cage III of the Schedule) should be declared in cage 110 of the Return. If the adjusted net income results in a loss, it should be declared in Schedule 8.

Depreciation Allowances or capital allowances based on the straight line method on the cost of acquisition of respective assets used in any trade, business profession or vocation are deductible in computing the adjusted profit for tax purposes from such Trade, Business, Profession or Vocation. Rates of depreciation are as follows:-

- | | | |
|--|---|-------------------------------------|
| (i) (a) Plant, Machinery or Fixtures (Other than those referred to in item (ii) or (iii)) | | |
| - On the cost of acquisition of any plant or machinery acquired and used on or after 01-04-2006 in any business of providing health care, printing of paper, gem cutting and polishing, packaging of any commodity for commercial purposes or rice milling | } | at 33 ¹ / ₃ % |
| - On the cost of acquisition of a ship, acquired on or after 01.04.2007 | | at 33 ¹ / ₃ % |
| - On the cost of acquisition of any plant or machinery acquired and used on or after 01.04.2007 in any business of carrying out construction work | } | at 25% |
| - On the cost of acquisition of other plant, machinery or fixtures, acquired and used on or after 01.04.2004 | } | at 12 ¹ / ₂ % |
| (b) Computer Software or Computer Hardware, acquired and used | | |
| - If developed in Sri Lanka and acquired on or after 01.04.2008, on the cost of acquisition | } | at 100% |
| - On the cost of acquisition of computer software acquired and used otherwise on or after 01.04.2005 | } | at 25% |

- Information technology equipment, calculating equipment including accessories and software } at 25%
- (ii) Motor Vehicles such as Lorry, Bus, Tractor or Trailer, or any Office Furniture
- Acquired and used on or after 01.04.2004, on the cost of acquisition at 20%
- (iii) Intangible Assets (Other than Goodwill)
- Acquired on or after 01.04.2004, on the cost of acquisition at 10%
- iv) (a) On any Bridge, Railway, Reservoir, Electricity or Water distribution line or Toll Roads (constructed or acquired on or after 01.04.2004), on the cost of construction or acquisition. } at 6 2/3%
- (b) On the cost of construction of any Qualified Building, or on the cost of acquisition of Condominium Unit for commercial use (other than such building or units constructed or acquired, as the case may be, prior to 01.04.1993) or On the cost of construction or acquisition of any Hotel Building or Hotel Building Complex, Industrial Building or Industrial Building Complex (constructed or acquired from a person who has used such building or building complex in any trade or business carried out by such person, on or after 01.04.2004) } at 6 2/3%
- (c) On the payment for licensing any manufacturing process in his favour;
- paid on or after 01.04.1999 but prior to 1.4.2002 at 10%
- paid on or after 01.04.2005 at 25%

Note: Deduction under any of the above paragraph is restricted depending on the date of acquisition or construction, so that the total deduction in respect of any asset does not exceed the cost of acquisition or construction of that asset.

03. Rents and/or Net Annual Value (NAV): (Schedule - 3)

- (i) **Rent** - When a house is rented out, the income to be declared by the owner is the gross rent receivable after deducting therefrom rates and an amount equal to 25% of the balance (being an allowance for repairs etc.), if such expenses are borne by the owner. No other deductions are permitted.

Following example shows how to calculate the rental income for tax purposes..

Example: A house is rented at a month rent of Rs. 6000/-. Its Rating Assessment is Rs. 30,000. (Rates at 25%).

	Rs.
Gross rent for the year (6,000 x 12)	72,000
Less : Rates for the year (paid by owner)	<u>(7,500)</u>
	64,500
Less : Allowance for repairs, 25% of Rs. 64,500	<u>(16,125)</u>
Net Rent for income tax purpose	<u>48,375</u>

Where the net rent computed as above is less than the Net Annual Value (NAV- please see item (ii) below), the income of the owner liable to income tax is the NAV of the property, subject to adjustments, if any, for;

- (a) Months for which the property was vacant, and/or the rent could not be recovered; or
- (b) The occupier's income, if any.

Rent - Exemptions:

Rent accruing to the owner of a house:

- constructed prior to 01.04.2003 being a house the floor area of which does not exceed 2,000 s.f., and used solely for residential purposes, is exempt for the year of assessment

in which the construction of the house was completed and for the next six (6) years. If the floor area of the house does not exceed 1,500 s.f., the exemption is applicable for a further period of 3 years,

- constructed on or after 01.04.2003 but prior to 01.04.2008, and used solely for residential purposes, is exempt for the year of assessment in which the construction of the house was completed and for the next four (4) years. If the floor area of the house does not exceed 1,500 s.f., the exemption is applicable for a further period of 2 years,
- constructed on or after 01.04.2008 being a house the floor area of which does not exceed 500 s.f., and used solely for residential purposes, is exempt for the year of assessment in which the construction of the house was completed and for the next four (4) years.

(ii) Net Annual Value (NAV)

The Net Annual Value (NAV) of a house is treated as income of the owner, if that house is occupied by the owner or on behalf of the owner. A house is considered as occupied on behalf of the owner when it is kept by the owner for his own use or for use by any member of his family.

The Net Annual Value (NAV) is computed as follows:

- (a) If a house is assessed for rating purposes by a local authority, the NAV is the Rating Assessment reduced by 25%

Example:	Rs.
Rating Assessment (Annual Value)	30,000
Deduct 25%	<u>(7,500)</u>
NAV	<u>22,500</u>
	=====

- (b) If a house is not assessed for rating purposes, the NAV is determined on the basis of the rent which a tenant might reasonably be expected to pay, reduced by 25%.

You should declare the NAV of every house occupied by you or on your behalf.

- (iii) Occupier's income** – Where a person occupies a house free of rent or pays a rent less than its net annual value, the net annual value or the excess of the net annual value over the rent paid, as the case may be, is deemed to be his income.

Net Annual Value – Exemptions:

- (a) NAV of one house occupied by you or on your behalf is exempt.
- (b) NAV of a house,
 - constructed prior to 01.04.2003 and occupied by the owner, is exempt for the year of assessment in which the construction was completed and for the next six (6) years. If the floor area of the house occupied by the owner does not exceed 1,500 square feet, the exemption is available for a further period of three (3) years; or
 - constructed on or after 01.04.2003 but prior to 01.04.2008 and occupied by the owner, is exempt for the year of assessment in which the construction was completed and for the next four (4) years. If the floor area of the house occupied by the owner does not exceed 1,500 square feet, the exemption is available for a further period of two (2) years; or

- constructed on or after 01.04.2008, being a house the floor area of which does not exceed 500 s.f and occupied by the owner, is exempt for the year of assessment in which the construction was completed and for the next four (4) years.

The income from Rent liable to tax should be declared under 3A, and Net Annual Value should be declared under 3B in Schedule 3. The total Rents and Net Annual Values (Cage 125 of Schedule 3) should be entered in Cage 120 of the Return.

The exempt income from Rent, if any, should be declared in PART 4 of the Return (INCOME EXEMPT FROM TAX).

04. Dividends: (Schedule - 4)

Dividend income arises on the day the company declares the dividend. However, if a company declares a dividend to be paid on a future date, income arises on that future date. Declare the gross dividend income in Schedule 4.

Any dividend from which tax at 10% has been deducted at source, will not be subject to further taxation. Therefore, such dividends are not required to be declared in Schedule 4. Declare only liable dividends, if any, from which tax has not been deducted.

Declare such Dividends from which 10% tax has been deducted, in PART-4 of the Return, under INCOME NOT INCLUDED IN TOTAL STATUTORY INCOME.

Total liable dividend income (Cage 131), if any, should be entered in Cage 130 of the Return.

Dividend - Exemptions:

Certain dividends declared by a company during the period of tax holiday or within one year thereafter, out of its exempt profits are exempt from tax.

The following dividends, however, are **not exempt** and liable to tax deduction at source (WHT) as well:

- (i) Any dividend declared by a Company which has entered into an agreement with the BOI on or after November 6, 2002;
- (ii) Any dividend declared by a Company the profits of which are exempt under any of the sections referred to in Section 10(g) of Inland Revenue Act, which qualified for such exemption on or after November 6, 2002.

Any dividend paid, on or after 01.04.2008, by a non resident company of Sri Lanka to any share holder resident in Sri Lanka, where the amount of such dividend is remitted to Sri Lanka through a bank.

05. Interest (Schedule - 5)

Income from Interest, Annuities or Royalties is the full amount falling due, whether received or not. Where interest is received from abroad, any tax payable abroad in respect of such interest should be deducted, and the net sum shown as income except in the case of interest from countries with which Sri Lanka has entered in to double tax avoidance conventions, in which case the gross interest should be shown. No other deductions are allowed.

Where interest due has not been received and is likely to become irrecoverable, such interest may be excluded and particulars of such interest should be shown in a separate note to be attached to the Return.

Interest on any deposit in a bank or financial institution, from which withholding tax at 10% or a lesser rate has been deducted, is not required to be declared in Schedule 5. Such interest including interest on Government Securities from which 10% WHT has been deducted in the hands of the

Primary Dealer, should be declared in PART-4 under INCOME NOT INCLUDED IN THE TOTAL STATUTORY INCOME

Interest (except from which WHT at 10% or a lesser rate has been deducted) should be declared in Schedule 5.

Total Interest income (Cage 141 of Schedule 5) should be entered in Cage 140 of the Return.

Exempt Interest:

The interest described in each of the following subparagraphs received by an individual is exempt from income tax:

- (a) Interest accruing on monies in a Special Account in a Commercial Bank, opened with the approval of the Central Bank for deposit of sums obtained by the exchange of foreign currency held outside Sri Lanka;
- (b) Interest accruing on monies lying in foreign currency with any foreign currency banking unit;
- (c) Interest accruing on monies deposited in a Non-Resident Foreign Currency Account (NRFC A/c) or Resident Foreign Currency Account (RFC A/c) opened with the approval of the Central Bank;
- (d) Interest accruing to any person from any Security, Note or Coupon issued by the Government in respect of an approved foreign currency loan;
- (e) Interest accruing to any person on moneys invested in Reconstruction Bonds issued by the government of Sri Lanka denominated in United States Dollars (US\$);
- (f) Interest accruing to any person on moneys invested in Sri Lanka Development Bonds denominated in United States Dollars issued by the Central Bank of Sri Lanka.
- (g) Interest up to Rs. 200,000 from any deposit in the National Savings Bank, Bank of Ceylon, Peoples Bank, State Mortgage and Investment Bank, Housing Development Finance Corporation Bank of Sri Lanka, SME Bank Ltd, Lanka Puthra Development Bank Ltd, any bank established under the Regional Development Banking Act, No. 06 of 1997, or any registered society within the meaning of the Co-operative Societies Law, No. 5 of 1972, by a Sri Lanka citizen of over 59 years of age (Senior Citizens).
- (h) The interest accruing from any money deposited in any Treasury Bond Investment External Rupee Account.
- (i) The interest accruing or arising on or after 01.04.2008 to any person resident in Sri Lanka, from any investment made outside Sri Lanka where such interest is remitted to Sri Lanka through a bank.

06. Annuities and Royalties: (Schedule – 6)

Annuities and Royalties should be declared in Schedule 6.

Total income from annuity and royalty (Cage 151 in Schedule 6) should be entered in Cage 150 of the Return.

Exempt Annuities: An annuity accruing to an individual whose age is 60 years or more, being an annuity for life or not less than 10 years, purchased from a bank or an approved insurance company and which accrues in return for full consideration in money or moneys worth paid for the purchase of such annuity, is exempt from income tax.

07. Income from any other source (Schedule - 7)

Income from any other source not mentioned above should be declared in Schedule 7. Please provide details of such income.

Total income from any other source (Cage 161 of Schedule 7) should be entered in Cage 160 of the Return.

TOTAL STATUTORY INCOME

Enter the total of all income enumerated under cages 100 to 160 in cage 190 of the Return. This total income is referred to as the Total Statutory Income.

PART – 2

DEDUCTIONS FROM TOTAL STATUTORY INCOME

08. Losses – (Schedule -8)

(1) A loss incurred from a trade, business, profession or vocation:

A loss incurred from a trade, business, profession or vocation will be allowed (subject to an upper limit) as a deduction, provided that, if it had been a profit it would have been assessable. Such deductible losses incurred during the period 01.04.2008 to 31.03.2009 other than any loss from the business of life insurance, and the business of finance leasing, together with any deductible loss brought forward from the previous year, can be deducted subject to a maximum limit of 35% of the Total Statutory Income of the year of assessment (figure in Cage 190 of the Return). A loss from the business of life insurance or the business of finance leasing can be deducted only from the profits from the respective businesses.

Enter any (deductible) balance loss brought forward from the previous year, in cage 201 of the Schedule 8. The amount of deductible losses for the year of assessment 2008/2009 is the lower amount in cage 202 or cage 203. The amount in cage 204 of the Schedule 8 should be entered in cage 200 of the Return.

(2) A loss incurred from sale of shares :

Any profit from the sale of shares etc. is exempt from income tax, if share transaction levy is paid in relation to that transaction. A loss from such a transaction is not deductible.

For the purpose of computing 35% of the Total Statutory Income, the Total Statutory Income means such income not including any Interest, Dividend, Reward, Share of fine or Winning from a Lottery or Gambling from which Withholding Tax has been deducted, as final tax.

Any balance loss (cage 202-204 of Schedule 8) can be carried forward to the next year of assessment (Cage 205 of the Schedule 8).

09. Interest, Annuities, Royalties or Ground Rent, etc. (Schedule - 9)

- (i) All interest paid to a bank or to other creditor and incurred in the production of income is deduction in ascertaining profits from trade, business profession or vocation (statutory income).
- (ii) (a) Any other interest paid under a legal or contractual obligation to a bank, financial institution or to a institution recognized by the Commissioner General, on a loan for the

construction or purchase of building, being interest which is not deductible in computing income from trade, business, profession or vocation ; and

- (b) Any ground rent, annuity or royalty paid, {which is not deductible in the production of income}

should be declared in Schedule 9 under ‘A’ or ‘B’.

ASSESSABLE INCOME

Deduct the total of deductions (in Cage 230) from Total Statutory Income (in cage 190) to arrive at the Assessable Income.

Any excess of deductions which can not be deducted from the Total Statutory Income, can be carried forward (Cage 205 of Schedule 8), and deducted in the subsequent year together with any deductible loss in that year, subject to the limit of 35% of the total statutory income. (loss from the business of life insurance can be deducted only from a profit from that business).

TAXABLE INCOME

Deduct from the assessable income, the aggregate of:

- (a) The tax free allowance of Rs. 300,000 (this allowance is not available to non residents); and
(b) An allowance in respect of qualifying payments;

and arrive at Taxable income.

10. Allowance for Qualifying Payments: (Schedule – 10)

(1) Qualifying payments

- (A) Donations made in money or otherwise to:
- the Government,
 - a Local Authority
 - a fund established by the Government, a fund established by a Local Authority or by a Provincial Council and approved by the Minister,
 - the Buddhist and Pali University or any higher educational institution established under the Universities Act, or under the Buddhist and Pali Universities Act,
 - the Sevena Fund,
 - the “API WENUWEN API” Fund (*Cage 304 of Schedule 10*) or
 - any un-deducted balance of any such qualifying payment brought forward from the previous year. (*Cage 302 of Schedule 10*)
- (B) Expenditure approved by the Minister and incurred by any person on any project included in a development plan of the Government (Full details of expenditure must be given with copies of relevant documents) (*Cage 310 of Schedule 10*), or any un-deducted brought forward balances (*Cage 308 of Schedule 10*).

- (C) Contributions made by an individual to a Provident Fund for self employed persons, approved by the Commissioner General (**Cage 314 of Schedule 10**).
- (D) Donations to certain specified institutions (referred to in Section 34(2) (f) of the Act) (**Cage 316 of Schedule 10**).
- (E) Expenditure on Houses constructed, or Houses or Sites purchased prior to 1.4.1994: (**Cage 318 of Schedule 10**)
- (a) Any amount paid by an individual to the Government, a bank, a Local Authority or to any other institution approved by the Minister in charge of the subject of Housing:
- (i) in the repayment of capital of any loan obtained on or after 01.04.1973 but on or before 31.03.1989:
- for the construction of a house; or
 - for the purchase of either the first house or the first site for the construction of a house, purchased on or after 01.04.1973.
- (ii) in the repayment of capital of any loan granted on or after 01.04.1989 but before 01.04.1994:
- for the construction of a house at a cost not exceeding Rs. 1,000,000 being the first house constructed on or after 01.04.1978; or
 - for the purchase at a cost not exceeding Rs. 1,000,000 of either a house or a site for the construction of house , being the first house or the site purchased on or after 01.04.1978.
- (iii) as monthly payments made:
- in respect of any house let on or after 01.04.1973 but before 01.04.1989 on rent purchase terms;
 - in respect of the first house purchased on or after 01.04.1978 in terms of a rent purchased agreement entered into on or after 01.04.1989, but before 01.04.1994 the consideration of which does not exceed Rs. 1,000,000.
- (F) Donations made by any person in money to an approved charity. Please attach receipts (**Cage 324 of Schedule 10**).
- (G) Contributions made by an individual to any provident fund or pension fund approved by Commissioner General of Inland Revenue or to any regulated provident fund. However, if the contribution is more than 12% of emoluments, the excess is not treated as a qualifying payment. Further, relief is due only if the relevant emoluments are not exempt from tax. (**Cage 326 of Schedule 10**).
- (H) Life Insurance Premium paid in Sri Lanka on :
- a life insurance policy (not being a pure endowment policy) in respect of which the premium is payable over a period not less than 3 years, or
 - a medical insurance policy(**Cage 328 of Schedule 10**).
- (I) Expenditure incurred in producing a film at a cost not less than 5 million rupees and production of which commences on or after January 1, 2000 (Cost of production includes any promotional expenses incurred within 90 days from the date of completion)
- (i) any undeducted balance brought forward from the previous year of any film, the production was completed prior to 01.04.2007, (within the Rs. 10,000,000 limit). should be entered in Cage 334 of the Schedule 10.
- (ii) any undeducted balance brought forward from the previous year of any film, the production was completed on or after 01.04.2007, (within the Rs. 25,000,000 limit). should be entered in Cage 335 of the Schedule 10.

- (iii) Expenditure incurred in producing a film during the year (i.e.the production completed during the year), should be entered in Cage 336 of the Schedule 10
- (J) Any expenditure other than expenditure referred to in item (K) incurred by an individual either in the construction or for the purchase of a house being the first house constructed or purchased on or after 01.04.2001 **(Cage 342 and 344 of Schedule 10).**
- (K) Any expenditure incurred by an individual in the repayment of capital of any approved housing loan either for the construction or the purchase of a house being the first house constructed or purchased on or after 01.04.2001.
- An “approved housing loan” for this purpose 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.
- (Cage 348 of Schedule 10).**
- (L) 50% of Investment of an amount not less than Rs. 500,000 in the purchase of ordinary shares issued by a Venture Capital Company during its exempt period under section 23(1) **(Cage 354 of Schedule 10).**
- (M) Un-deducted balance of any amount invested by any person between November 5, 1997 and April 1,2000 in the purchase of new ordinary shares in any BOI Company incorporated on or after November 06, 1997 and which:
- (a) is engaged in the development of infrastructure facilities in Sri Lanka;
 - (b) has as at 31 March, 2000:
 - issued capital of not less than Rs. 300 million; and
 - invested not less than Rs. 500 million in the acquisition of capital assets (building, land, plants, machinery etc) **(Cage 358 of Schedule 10).**
- (N) Expenditure not exceeding Rs.25 million incurred in the construction and equipping of cinema, which the exhibition of cinematographic films commences on or before 01.04.2008, and certified by the National Film Corporation of Sri Lanka Act, No. 47 of 1971 as being equipped with digital technology, Digital Theater System and Dolby Sound System **(Cage 262 of Schedule 10)**
- (O) Expenditure not exceeding Rs.10 million incurred in the upgrading of cinema, which the exhibition of cinematographic films commences prior to 01.04.2008, which was not equipped with digital technology, Digital Theater System and Dolby Sound Systems, prior to April 1, 2008 and certified by the National Film Corporation of Sri Lanka Act, No. 47 of 1971 as being equipped on or after 01.04.2008, with digital technology, Digital Theater System and Dolby Sound System **(Cage 370 of Schedule 10)**
- (P) Any expenditure incurred in undertaking for the construction and sale (if sale of such house take place before 01.04.2013) at house for low income families under a schemes approved by the Urban Development Authority or the National Housing Authority , flow area does not exceed 500. s. f. **(Cage 373 of Schedule 10)**

(2) ***Deduction in respect of qualifying payments made (or deemed to have been made):***

The allowance in respect of qualifying payment is equal to the amount of qualifying payments made. However, the deduction in respect of certain qualifying payments is restricted as follows:

- (i) No restriction in the deduction in respect of qualifying payments referred to in item (A) and (P) of sub paragraph (1).
- (ii) Deduction in respect of qualifying payments referred to in item (B) of sub paragraph (1), is limited to Rs.25,000;
- (iii) Total deduction in respect of all qualifying payments referred to in items (C), and (D) of sub paragraph (1), is limited to 1/3rd of Assessable Income, or Rs. 25,000; whichever is lower;
- (iv) Total deduction in respect of qualifying payments referred to in items (F), (G), and (H) of sub paragraph (1), is limited to 1/3rd of the Assessable Income or Rs.75,000, whichever is lower;
- (v) Deduction in respect of any qualifying payments (i.e cost of a film) referred to in item (I) of sub paragraph (1), is limited to Rs. 35 million per film produced on or after 01.04.2007.
- (vi) Deduction in respect of qualifying payment referred to in items (J) and (K) of sub paragraph (1), is limited to 1/3rd of Assessable Income or Rs. 100,000 whichever is lower;
- (vii) Deduction in respect of qualifying payments referred to in item (L) of sub paragraph (1), is limited to 1/3rd of Assessable Income;
- (viii) Deduction in respect of qualifying payment referred to in item (M) of sub paragraph (1) is limited to 1/3rd of the Assessable Income;
- (ix) Deduction in respect of qualifying payment referred to in item (N) of sub paragraph (1) is limited to 25 Million ;
- (x) Deduction in respect of qualifying payment referred to in item (O) of sub paragraph (1) is limited to 10 Million ;

(3) ***Carry forward of un-deducted balances of Qualifying Payments:***

Un-deducted balance, if any, of any qualifying payment referred to in:

- item (A), (B), (I) (ii), (M), (N), (O), (P) or (Q) of sub paragraph (1) may be carried forward indefinitely until the full amount of the qualifying payment is deducted.
- item (I) (i) of sub paragraph (1) can be carried forward up to the second year of assessment succeeding the year in which the production of the film is completed.
- item (J) of sub paragraph (1) may be carried forward to not more than 9 years immediately succeeding the year of assessment in which such expenditure was incurred.
- any other item cannot be carried forward.

Illustration - I

Mr. Silva, a Government pensioner (retired on 1st April, 2008) is employed in a Mercantile Firm. His income for the year ended 31.03.2009 is as follows:

	Rs.
Government Pension	110,000
Commuted Pension	250,000
Salary from the Mercantile Firm	380,000
NSB- interest - own (tax has not been deducted)	5,000
- Son's under 18 years (")	2,750
(Net) Rent income (after deducting rates and repair allowance)	6,000
Wife's income from tea estate	15,000
Agricultural income (cultivation)	50,000
Dividends	10,000
WHT	1,000

Total	<u>827,750</u>

Mr. Silva has -

- (i) paid a sum of Rs.1,000 during the year as interest to a bank on a housing loan,
- (ii) Contributed Rs. 30,400 to an approved Provident Fund
- (iii) Donated to the Colombo City Development Fund established by the C.M.C an amount of Rs. 2,000,
- (iv) Donated to Tower Hall Theatre Foundation a sum of Rs. 10,000,
- (v) Donated to Sri Lanka Cancer Society a sum of Rs. 25,000.

His Taxable Income for the year of assessment 2008/2009 is computed as follows:

	Rs.
Government Pension	Exempt
Commuted Pension (Government)	Exempt
Salary – Mercantile Firm	380,000
NSB interest - Own - WHT has not been deducted	5,000
- Son's (under 18 years)	2,750
Rent	6,000
Agriculture	Exempt
Dividends – 10% WHT deducted is final tax	-
Total Statutory Income	<u>393,750</u>
Less- interest paid	<u>(1,000)</u>
Assessable income	<u>392,750</u>
Less- Tax free allowance	300,000
Allowance for qualifying payments	<u>67,400</u>
Taxable Income	<u>25,350</u>

The Computation of the allowance for qualifying payments is as follows:-

	Rs.
Donation to City Development Fund (Allowable in full)	2,000
PF contribution and donation to Sri Lanka Cancer Society, total up to Rs.55,400. (the deduction is limited to the lesser of 1/3 rd of Assessable Income or Rs.75,000 whichever is less)	55,400
Donation to THTF, (deduction limited to 1/3 rd of Assessable Income or Rs. 25000)	<u>10,000</u>
	<u>67,400</u>

Illustration - II

Mr. Fernando is a Government Executive officer. Details of his employment income, other income and payments are as follows:

<u>Income</u>	Rs.
Government Salary	600,000
Incentive	200,000
Business profits (adjusted for tax purposes)	50,000
Rent (Adjusted)	200,000
Interest (NSB) 10% WHT has been deducted	10,000
Dividends	<u>12,000</u>
Total	1,072,000

<u>Payments</u>	Rs
Interest - On credit card	1,000
- On housing loan	1,000
Donation to an approved charity	15,000

Business loss carried forwarded from the last year Rs.250,000.

The tax payable by Mr. Fernando for the year of assessment 2008/2009 is computed as follows:

	Rs.
Government employment - Salary	600,000
- Incentive	200,000
Business profits	50,000
Rent income	200,000
Interest (WHT deducted is final)	-
Dividends (WHT deducted is final)	<u>-</u>
Total Statutory Income	1,050,000
Less :-	
Interest – On credit card, (not allowable)	-
- On housing loan	1,000
Loss brought forward Rs 250,000	
Subject to 35% of the total Statutory Income (1,050,000x35%)	<u>250,000</u> (251,000)
Assessable Income	799,000
Tax free allowance	300,000
Donation to approved charity	<u>15,000</u>
(Subject to $\frac{1}{3}^{\text{rd}}$ of Assessable Income or 75,000, which ever is less)	<u>(315,000)</u>
Taxable income	<u>484,000</u>
Tax on first Rs. 300,000 - at 5%	15,000
Balance Rs. 184,000 - at 10%	<u>18,400</u>
Gross Tax	33,400
Less: - Tax credit under section 132 of the Act (Tax Attributable to Government Official Emoluments)	
= $\frac{\text{Gross Tax Payable}}{\text{Total Statutory Income}} \times \text{Govt. Official Emoluments (excluding incentives, bonus, rewards ect)}$	
= $\frac{33,400 \times 600,000}{1,050,000} = 22,057$	<u>(22,057)</u>
Tax Payable	<u>11,343</u>

***The deduction shall be an amount which bear to the income tax charged on the taxable income, the same proportion which the official emoluments (other than any bonus, incentive payments, rewards, share of fine or other similar payments) of the employee, bear to the total statutory income.**

Illustration – III

Mr. Perera is a Government Doctor. He is engaged in private practice as well. The incomes of Dr. Perera for the period from 01.04.2008 to 31.03.2009 are as follows:

	Rs.
Income of 2008/09	
Government Official Emoluments	250,000
Net income (adjusted for tax purposes) from private practice	600,000
Interest income (WHT at 10% has been deducted)	<u>15,000</u>
Total	850,000
Expenses	
Interest paid on the Car Loan	12,000
Interest paid on Housing Loan	10,000

Tax payable by Dr. Perera for the year of assessment 2008/09 is computed as follows:

Govt. Official Emoluments	250,000
Net income from private practice (adjusted for tax purposes)	600,000
Interest income (WHT deducted is final tax)	<u>-</u>
Total Statutory Income	850,000
Less: Interest on Car Loan – Not allowed	-
Interest on Housing Loan	<u>(10,000)</u>
Assessable Income	840,000
Less: Tax free Allowance	<u>(300,000)</u>
Taxable Income	<u>540,000</u>

Tax on first Rs. 300,000 at 5%	15,000
Next Rs 200,000 at 10%	20,000
Balance 40,000 at 15%	<u>60,000</u>
Gross Tax	41,000

Less :- Tax credit under section 132 of the act
(Tax Attributable to Government Officials Emoluments)

= $\frac{41,000 \times 250,000}{850,000}$ =	<u>(12,059)</u>
Tax Payable	<u>28,941</u>

PART – 3

CALCULATION OF INCOME TAX PAYABLE

First compute the gross income tax payable, and then deduct applicable tax credits and calculate the amount of tax payable/(Refund due) by/(for) you for the year of assessment 2008/09.

Computation of Gross Income Tax

Please apply the following Tax Rates mentioned below to compute the gross income tax on your taxable income (*Cage 410 of the Return*).

(1). Normal Tax Rates

Select the taxable income range within which your taxable income falls and compute the tax accordingly.

<i>Taxable Income Range</i>	<i>Tax on the taxable Income equal to the lowest of the range Rs.</i>	<i>Tax Rate on the excess taxable income over the lowest of the range Rs.</i>
000,000 - 300,000	-	5%
300,000 - 500,000	15,000	10%
500,000 - 700,000	35,000	15%
700,000 - 900,000	65,000	20%
900,000 - 1,100,000	105,000	25%
1,100,000 - 1,600,000	155,000	30%
1,600,000 & over	305,000	35%

- Eg. (i) if the taxable income is Rs. 250,000, the tax payable is $250,000 \times 5\% = 12,500$
(ii) if the taxable income is Rs. 510,000, the tax payable is $35,000 + (10,000 \times 15\%) = 36,500$

(2). Special Rates applicable on certain Employment Income:

(1) Rates applicable to Once-and-for-all-receipts (Terminal Benefits from employment)

The following concessionary rates are applicable to the aggregate of uniform scheme of once-and-for-all employment receipts (other than such part of retiring gratuity paid in excess of Rs. 1,800,000 or the product of the monthly average salary for the last three (03) years and the number of completed years of service, which ever is higher. The excess retiring gratuity is taxed at normal progressive rates).

If the period of service or the period of contribution is 20 years or more	}	First Rs.5,000,000 - No tax
Or		
If the period of service or the period of contribution is less than 20 years	}	First Rs.2,000,000 - No tax
On the next Rs. 1,000,000	-	5%
On the Balance	-	10%

Any compensation for loss of office or employment is taxable at normal rates but not exceeding 20%, where such compensation has been paid under a non uniform scheme.

Calculate 2 figures for the Taxable Income, having included the terminal benefits and having excluded such uniform scheme terminal benefits and then apply the rate schedule on the difference of 2 figures to compute tax on terminal benefits.

Tax on Once-and-for-all receipts from employment should be entered in Cage 500 of the Return.

(3). Other Specific Tax Rates:

- (a) (i) Profits from promotion of tourism, certain construction work, or certain agricultural undertakings (if not exempt), and qualified export, profits etc. included in the taxable income are taxable at rates not exceeding 15%.
- (ii) Dividends received from outside Sri Lanka and which form part of taxable income are taxable at 10%. However, any dividend paid on or after 01.04.2008, by a company not resident in Sri Lanka to any shareholder resident in Sri Lanka, where such dividend is remitted to Sri Lanka through a bank, is exempt from tax.
- (b) Lottery, betting or gaming – taxable at 40%
- (c) Maximum tax rate not exceeding 20% (on or after 01.04.2008) for the part of the taxable income from employment as a Pilot of any airline licensed under the Air Navigation Act

11. Tax Credits: (Schedule - 11)

(1) Government Employment Tax Credit (Cage 541 of Schedule 11)

This refers to the Credit which is available only up to the extent of tax on official emoluments (other than any bonus, incentive, reward or similar payment) included in the Total Statutory Income.

(2) Relief for Double Taxation (Cage 542 of Schedule 11)

If you are entitled to any double tax relief, please consult your Assessor to compute the relief due. (Deduction can not be more than the amount of tax chargeable in Sri Lanka on such income).

(3) Share of Partnership Tax paid at 10% (Cage 543 of Schedule 11)

If you are a partner of a partnership, enter here the share of such 10% partnership tax paid by the partnership and apportioned to you. This part can be set off only against the tax on share of profits from the partnership,

(However,

- If, ESC paid by the partnership is more than the 10% partnership tax, then no chargeability to partnership tax.
- If, the 10% “Partnership Tax” is more than the ESC paid, then the chargeability to partnership tax is the excess of partnership tax over the ESC paid).

Please note that no part of any of the due partnership tax paid can be refunded or carried forward.

(4) Credit for Economic Service Charge (ESC) paid (Cages 546 to 560 of Schedule 11)

The amount of ESC paid by you for any quarter of this year of assessment (including any share of ESC apportioned by a partnership where you are a partner) and any ESC brought forward can be deducted from the income tax payable by you.

Cage 546 – Enter the brought forward balance from previous years, if any, in this cage.

Cages 547 to 550 – Enter ESC quarterly payments made by you as 1st, 2nd, 3rd, and 4th in the cages 547, 548, 549 and 550, respectively.

Cage 555- Enter the total of amounts in cages 546 to 550, in cage 555.

Cage 556 – Enter your share of ESC paid by any partnership, if any, in cage 556.

Cage 558 – Enter the total of amounts in cages 555 and 556 in cage 558.

Cage 559 – If the amount in cage 558 is greater than the amount of income tax payable by you after deducting the amounts in cages 541, 542 and 543 in Schedule 11 from the gross tax payable (i.e. the amount in Cage 530 of the Return), enter the difference between those two figures (i.e. figure in cage 558 and balance after deducting the amounts in cages 541,542, and 543) in cage 559, which is the amount of ESC carried forward to the next year of assessment for deduction purposes.

Cage 560 – Enter whichever is the lesser amount in cage 558 or the gross income tax payable after deducting the amounts in cages 541, 542 and 543.

When you claim the ESC (paid) as a Credit (Cage 560 of Schedule 11), first deduct any balance of ESC brought forward from the previous year, since any un-deducted balance of ESC paid during any year can be carried forward only to next four years of assessments, for deduction.

(5) Tax deducted under PAYE Scheme (Cage 562 of Schedule 11)

Enter the total of PAYE Deductions excluding SRL. Please attach PAYE T -10 Certificates issued by your Employer.

(6) Withholding Tax (WHT) deducted on Specified Fees (Cage 564 of Schedule 11)

(7) Withholding Tax (WHT) deducted on Rental Income from places of non-residential purposes (Cage 566 of Schedule 11)

(8) Income Tax paid as 1st, 2nd, 3rd, 4th Instalments and Final Payment (Cages 570 to 574 of Schedule 11)

Enter the Quarterly Income Tax payments excluding SRL. (Attach copies of Paying-in-slips).

(9) Discount for advance payment of self-assessment tax installments (Cage 575 of Schedule 11)

You are entitled to a 10% discount on your quarterly self-assessment tax payments (based on current year tax liability), if you have made such quarterly payments one month before the due dates.

Illustration – 1

Assume that your income tax liability for the year of assessment 2007/08 was Rs.100,000 and for the year of assessment 2008/09 is Rs 150,000 and you have paid tax on self-assessment basis in advance as follows:

Tax liability for the year of assessment 2008/09	Rs. = 150,000
Less: Tax credits on self-assessment payments (Cages 570 to 573 of the Schedule 11)	
1 st Instalment on or before 15 th July 2008. (100,000 / 4) less 10%	Rs. = 22,500
2 nd Instalment on or before 15 th October 2008 (100,000 / 4) less 10%	Rs. = 22,500
3 rd Instalment on or before 15 th January 2009 (100,000 / 4) less 10%	Rs. = 22,500
4 th Instalment on or before 15 th April 2009 (100,000 / 4)less 10%	Rs. = <u>22,500</u>
Total of quarterly self-assessment payments	Rs. = 90,000
Total Discount (Cage 575 of Schedule 11)	Rs. = <u>10,000</u> (100,000)

Balance tax payable on or before 30th September 2009, as final payment Rs. = 50,000
(Cage 574 of Schedule 11)

Discount is limited to 10% of the current year tax liability. (i.e. 150,000 x 10%=15,000)

Illustration – 2

Assume that your income tax liability for the year of assessment 2007/8 was Rs. 100,000 and for the year of assessment 2008/09 is 80,000, and you have paid tax on self-assessment basis in advance as follows.

Tax liability for the year of assessment 2008/09	Rs. = 80,000
Less: Tax credits on self-assessment payments (Cages 570 to 573 of the Schedule 11)	
1 st Instalment on or before 15 th July 2008. (100,000 / 4)less 10%	Rs. = 22,500
2 nd Instalment on or before 15 th October 2008 (100,000 / 4) less 10%	Rs. = 22,500
3 rd Instalment on or before 15 th January 2009 (100,000 / 4)less 10%	Rs. = 22,500
4 th Instalment on or before 15 th April 2009 (100,000 / 4 less 10%	Rs. = <u>22,500</u>
Total of quarterly self-assessment payments	Rs. = 90,000
Total Discount (Cage 575 of Schedule 11)	Rs. = <u>8,000*</u> (98,000)

Refund due for you for the year of assessment 2008/09 Rs. = 18,000

* Discount is limited to 10% of the current year tax liability. (i.e 80,000 x 10%=8,000)

Please enter the date of payment of 1st, 2nd, 3rd and 4th quarterly self-assessment tax payments in cages D1, D2, D3 and D4, respectively.

- (10) Any other payment of Income Tax by way of tax at source on any Dividend, Interest or Other, other than any such Tax which is final. Please specify the nature, of payment and attach documentary proof. (Cage 578 of Schedule 11)

The Grand Total in Cage 580 of Schedule 11 should be entered in Cage 540 of the Return.

PART – 4

INCOME NOT INCLUDED IN THE TOTAL STATUTORY INCOME (INCLUDING INCOME EXEMPT FROM TAX)

Income not included in the Total Statutory Income

Please furnish under this, the details of interest, dividends, rewards, fines, lottery winnings etc. from which withholding tax at 10% or lesser percentage has been deducted at source and details of tax deduction at 2.5% from the sale price by the Gem and Jewellery Authority, the taxation of which were final.

Income Exempt from Income Tax

Please furnish under this, the particulars of income exempt from tax. i.e. exempt income from any source of income given in cages 100 to 160, for the year ended 31.03.2009.

PART – 5

DECLARATION

Enter the particulars of the spouse and children, provide your identity particulars, contact addresses and contact telephone numbers, and place your signature

STATEMENT OF ASSETS AND LIABILITIES AS AT 31.03.2009

In terms of Section 106 (6) of the Inland Revenue Act, No. 10 of 2006; you are required to declare the value of (your) every asset and liability (in or outside Sri Lanka) as at the last day of the year of assessment.

Accordingly, you are required to fill in the form "*Statement of Assets and Liabilities*," provided to you with the Return, and submit together with the Return.

- (a) **Immovable Properties:** Declare all your Immovable Properties (situated in or outside Sri Lanka) as at 31-03-2009 with values.
- (b) **Movable Properties:** Declare with values all Movable Properties (in or outside Sri Lanka) such as Motor Vehicles, Bank Deposits, Shares/Stocks/Securities, Cash in Hand, Money Loaned or Amounts receivable, Gold, Silver, Gems & Jewellery etc., owned by you as at 31.03.2009.
- (c) **Acquisition(including receiving gifts) of any other Assets:** Declare any other asset acquired, giving full details.
- (d) **Disposal of any Asset including shares:** Declare all disposals during the period 01.04.2008 to 31.03.2009, with details.
- (e) **Properties held as a part of Business:** Declare the capital and current account balances held by you as part of a business as at 31.03.2009. (Attach Balance Sheets where relevant).



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