



INLAND REVENUE DEPARTMENT

PUBLIC RULING NO - PR/IT/2018/01



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INLAND REVENUE DEPARTMENT
Sri Lanka

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COMMISSIONER GENERAL'S PUBLIC RULING

This Public Ruling as provided for under section 104 of the Inland Revenue Act, No. 24 of 2017 is issued for the purpose of providing guidance to the general public and officers of the Inland Revenue Department. It sets out the interpretation of the Commissioner General of Inland Revenue in respect of the relevant provisions of the tax law, and the policy and the procedure that is to be applied.

A Public Ruling may be withdrawn, either wholly or in part, by notice of withdrawal or by publication of a new ruling.

Commissioner General of Inland Revenue

Inland Revenue Department.

1. Objective

The objective of this Public Ruling (PR) is to specify: -

The due dates of instalment payments of tax payable under Inland Revenue Act, No. 24 of 2017 (IR Act) for taxpayers who have been granted the approval to change the accounting period under section 28 of the Inland Revenue Act, No. 10 of 2006 (former IR Act)

2. Relevant Provisions of the Law

Sections 2, 20, 82, 90 and 203 of the IR Act, section 28 of the former IR Act and paragraph 13 of the Extraordinary Gazette No. 2064/53 (dated April 01, 2018)

3. Interpretation

The following interpretations are relevant for this PR:

- (i) “person” means an individual or entity and includes a body of persons corporate or unincorporate, an executor, non-governmental organization and charitable institution; (section 195 -IR Act)

- (ii) “tax” means a compulsory payment to the government imposed under this Act regardless of whether that payment is designated as a tax, fee, duty, levy or otherwise, and, unless the context otherwise requires, includes withholding tax, instalments, interest, late fee, or penalty in relation to a tax; (section 195- IR Act)

- (iii) “taxpayer” means—
 - (a) a person who is required to pay tax under this Act including a person who has zero chargeable or taxable income or a loss for a year of assessment; or
 - (b) a person who is required to withhold tax and pay it to the Department;(section 195 – IR Act)

- (iv) “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 (section 217 - former IR Act)

4. Application of The Law

The imposition of income tax is governed by section 2 and income tax payment procedure is governed by CHAPTER VIII whilst transitional provisions are provided in CHAPTER XXII of the IR Act.

Accordingly, income tax shall be payable for each year of assessment by a person who has taxable income for that year or by a person who receives a final withholding payment during that year. Tax imposed under section 2 of the IR Act shall be payable by withholding under Division II, by instalment under Division III or on assessment under Division IV of the IR Act.

4.1. Methods and Time for Payment of Tax (S. 82, CH. VIII of The IR Act)

According to section 82(2) of the IR Act, tax shall be payable:

- (a) in the case of tax payable by withholding, at the time provided for in section 86;
- (b) in the case of tax payable by instalment, on the date by which the instalment is to be paid under section 90;

4.2. Payment of Tax by Quarterly Instalments (S.90, CH. VIII of The IR Act)

According to section 90(1) of the IR Act, a person who is an “instalment payer” shall pay tax by quarterly instalments if he derives or expects to derive assessable income during a year of assessment –

- (a) from a business or investment; or
- (b) from an employment where the employer is not required to withhold tax under section 83.

According to section 90(2) of the IR Act, an instalment payer shall pay instalments of tax;

- (a) in the case of a person whose year of assessment is a twelve-month period ending on the thirty first day of March, on or before the fifteenth day respectively of August, November and February of that year of assessment and the fifteenth day of May of the next succeeding year of assessment; or
- (b) in any other case, on or before the fifteenth day after each three-month period commencing at the beginning of each year of assessment and a final instalment on or before the fifteenth day

after the end of each year of assessment, unless it coincides with the end of one of the three-month periods.

4.3. Changing the year of assessment (S.20(2) of the IR Act)

According to section 20(2) a trust or company may apply to the Commissioner General for a change to its year of assessment and the Commissioner-General may, on such terms and conditions as the Commissioner-General thinks fit, approve the change. The Commissioner-General may revoke an approval if a trust or company fails to comply with a term or condition attached to the approval.

4.4. Transitional Provisions (S.203(3) of The IR Act)

Section 203(3) shall apply where a person's year of assessment under the former IR Act (at the time the former legislation ceases to have effect) is a period of twelve months other than the year ending 31 March. The person shall be deemed to have been granted approval by the Commissioner General under section 20(2) to use that period as the person's year of assessment under this Act.

4.5. Changing the accounting period (S.28 of the former IR Act)

According to section 28(4) of the former IR Act, where any person is unable to make up the accounts of any trade, business, profession or vocation carried on or exercised by him for each successive period of twelve months ending on the thirty-first day of March of each year, 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 make up 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:

4.6. Transitional provisions to continuation of the approval granted by the CGIR (Extraordinary gazette No. 2064/53)

According to Paragraph 13 of the Extraordinary gazette No. 2064/53 where a direction is issued by the Commissioner General of Inland Revenue under Section 28 of the Inland Revenue Act, No. 10 of 2006, such direction shall continue to be in force.

5. Payment of Income Tax

With effect from April 01, 2018, a person who is an “instalment payer” shall pay income tax by quarterly instalments by estimating the tax payable during the year of assessment and pay the tax liability with the submission of statement of estimated tax payable by the date for payment of the first tax instalment with the aim to enhance voluntary compliance and streamline the administration of the payments of income tax.

6. Clarification on Due Dates for Instalment Payments

According to section 28(4) of the former IR Act, CGIR was authorized to direct certain taxpayers subject to conditions specified therein to prepare accounts in respect of any trade, business, profession or vocation for periods other than the year of assessment for performing their tax obligations. Nevertheless, according to former IR Act such persons were not permitted to change the year of assessment (which 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 of the immediately succeeding year). However, there is no provision in the IR Act with effect from April 01, 2018 to direct Taxpayers to prepare accounts for any period other than the year of assessment. Therefore, the transitional provisions referred to in section 203(3) have no application to such persons, who have been directed by the CGIR to prepare accounts in such manner.

With effect from April 01, 2018, where the former IR Act has been repealed by the IR Act, in which no such provision is available in order to comply with the directions already given, a provision has been made under paragraph 13 of the Extraordinary Gazette No. 2064/53. The effect is that where a direction has been issued by the CGIR under section 28 of the former IR Act, such direction shall continue to be in force. However, this is not a direction to change the year of assessment. Since the CGIR has not granted an approval to change the year of assessment under section 28 of the former IR Act, and also provisions of section 203(3) has no application for this, the year of assessment for such persons remains the same (i.e. 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). Hence such persons are required to make instalment payments on or before the due dates provided under section 90(2)(a) that

specifies as follows, by applying the accounts prepared for a different period as per the direction issued by CGIR.

1st instalment - on or before the fifteenth day of August, in that year of assessment

2nd instalment - on or before the fifteenth day of November in that year of assessment

3rd instalment - on or before the fifteenth day of February in that year of assessment

4th instalment - on or before the fifteenth day of May of the next succeeding year of assessment

7. Effective Date

This ruling is effective from 1 April 2018.

Commissioner General of Inland Revenue

Inland Revenue Department