



**PARLIAMENT OF THE DEMOCRATIC
SOCIALIST REPUBLIC OF
SRI LANKA**

**INLAND REVENUE (AMENDMENT)
ACT, No. 10 OF 2002**

[Certified on 21st June, 2002]

Printed on the Order of Government

Published as a Supplement to Part II of the **Gazette of the Democratic
Socialist Republic of Sri Lanka** of June 21, 2002

PRINTED AT THE DEPARTMENT OF GOVERNMENT PRINTING, SRI LANKA

TO BE PURCHASED AT THE GOVERNMENT PUBLICATIONS BUREAU, COLOMBO 01

Price : Rs. 22.00

Postage : Rs. 6.75

*Inland Revenue (Amendment)
Act, No. 10 of 2002*

[Certified on 21st June, 2002]

L.D.—O.18/2002.

AN ACT TO AMEND THE INLAND REVENUE ACT, NO . 38 OF 2000

BE it enacted by the Parliament of the Democratic Socialist Republic of Sri Lanka as follows :—

1. This Act may be cited as the Inland Revenue (Amendment) Act, No. 10 of 2002.

Short title.

2. Section 3 of the Inland Revenue Act, No. 38 of 2000 (hereinafter referred to as “the principal enactment”) is hereby amended by the repeal of paragraph (*h*) of that section, and the substitution, therefor of the following paragraph :—

Amendment of section 3 of Act, No. 38 of 2000.

“(h) capital gains arising on or before March 31, 2002”.

3. Section 7 of the principal enactment is hereby amended in subsection (1) of that section, by the substitution for the words “arising from—”, of the words and figures “arising on or before March 31, 2002 from—”.

Amendment of section 7 of the principal enactment.

4. Section 8 of the principal enactment as amended by Act No. 8 of 2001 is hereby further amended in paragraph (*a*) of that section as follows :—

Amendment of section 8 of the principal enactment.

- (1) in subparagraph (lxxiv) of that paragraph by the substitution for the words “Investment Bank.”, of the words “Investment Bank :”.
- (2) by the addition at the end of that paragraph of the following :—

“Provided however that except in the case of a body of persons referred to in subparagraphs (ix), (xi), (xv), (xvii), (xx), (xxi), (xxxix), (li), (liv), (lxiv), (lxv), (lxvi), (lxxii), (lxxiii) and (lxxiv), the exemption from income tax, of the

profits and income of any other body of persons referred to in this paragraph shall not extend to any such profits and income of that body of persons as consists of dividends or interest, in respect of which tax has been deducted under subsection (1A) of section 61 or section 122A respectively.”.

Amendment of section 10 of the principal enactment.

5. Section 10 of the principal enactment is hereby amended as follows :—

- (1) in paragraph (a) of that section, by the substitution for the words “payable to an individual”, of the words “payable prior to April 1, 2002 to an individual” ;
- (2) by the insertion, immediately after paragraph (e) of that section of the following paragraphs :—
 - “(ee) the interest accruing to any person on moneys invested in Reconstruction Bonds issued by the Government of Sri Lanka denominated in United States Dollars ;”.
 - (eee) the 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 on or after April 1, 2001;”
- (3) in paragraph (f) of that section by the substitution for the words “Tax Reserve Certificate ; ”, of the words “Tax Reserve Certificate surrendered prior to April 1, 2002 ;” ;
- (4) in paragraph (h) of that section, by the substitution for the words “accruing to any financial institution” of the words “accruing prior to April 1, 2002 to any financial institution”.

Amendment of section 11 of the principal enactment.

6. Section 11 of the principal enactment is hereby amended in paragraph (f) of that section, by the substitution, for the words and figures “18, 19, 20 or 21 of this Act”, of the words and figures “18, 18A, 19, 20, 20A, 21, 21A, or 21B of this Act”.

7. Section 14 of the principal enactment is hereby amended in subsection (1) of that section as follows :—

Amendment of section 14 of the principal enactment.

(1) in paragraph (c) of that subsection by the substitution for the words “for the three years of assessment.”, of the words “ for the three years of assessment ; ” ;

(2) by the addition immediately after paragraph (c) of that subsection of the following paragraph :—

“(d) the aggregate amount of the capital gains of any person for any year of assessment commencing on or after April 1, 2002 arising from any transaction stipulated in section 7.”.

8. Section 17 of the principal enactment is hereby amended in subsection (2) of that section, by the substitution for the words “Order published in the Gazette” of the words “Order published in the Gazette, prior to April 1, 2002”.

Amendment of section 17 of the principal enactment.

9. Section 18 of the principal enactment is hereby amended by the substitution for the words and figures “commences business on or after April 1, 2000,” of the words and figures “commences business on or after April 1, 2000 but prior to April 1, 2002”.

Amendment of section 18 of the principal enactment.

10. Section 18A of the principal enactment is hereby amended in subsection (1) of that section, by the substitution for the words and figures “which commences business on or after April 1, 2001,” of the words and figures “which commences business on or after April 1, 2001 but prior to April 1, 2003”.

Amendment of section 18A of the principal enactment.

11. Section 19 of the principal enactment is hereby amended in subsection (1) of that section, by the substitution for the words and figures “which commences business on or after April 1, 2000,” of the words and figures “which commences business on or after April 1, 2000 but prior to April 1, 2002”.

Amendment of section 19 of the principal enactment.

Amendment of section 20 of the principal enactment.

12. Section 20 of the principal enactment is hereby amended in subsection (1) of that section, by the substitution for the words and figures “which commences business on or after April 1, 2000”, of the words and figures “which commences business on or after April 1, 2000 but prior to April 1, 2002”.

Insertion of new sections 21A and 21B in the principal enactment.

13. The following new sections are hereby inserted immediately after section 21 of the principal enactment and shall have effect as sections 21A and 21B of that enactment :—

“Exemption from income tax of certain agricultural and industrial projects.

21A. (1) The profits and income within the meaning of paragraph (a) of section 3 (other than any profits and income from the sale of capital assets) of any company from any specified undertaking referred to in subsection (2) and carried on by such company on or after April 1, 2002 shall be exempt from income tax for a period of three years reckoned from the commencement of the year of assessment in which the undertaking commences to carry on commercial operations.

(2) For the purposes of subsection (1) “specified undertaking” in relation to a company means an undertaking carried on by such company and which is engaged in—

- (a) agriculture, agroprocessing, industrial and machine tool manufacturing, information technology and allied services, electronics or the export of non-traditional products ;
- (b) any other designated project or in a project in which the investment is in excess of rupees five hundred million, and which conforms to the prescribed guidelines.

For the purpose of this subsection—

- (i) “agriculture” means the cultivation of land with plants of any description and the rearing of fish ;
- (ii) “export of non-traditional products” means the export of any goods, other than goods referred to in sub-paragraph (ii) of paragraph (b) of section 52 of this Act.

Exemption
from income
tax of certain
undertakings
for
infrastructure
development.

21B. (1) The profits and income within the meaning of paragraph (a) of section 3 (other than any profits and income from the sale of capital assets) of any company from any specified undertaking referred to in subsection (2) shall be exempt from income tax for a period not less than five years but not more than ten years as may be determined by the Minister by Order published in the Gazette, if the amount of the investment made by such company in such undertaking is not less than one thousand two hundred and fifty million rupees. Such period shall be reckoned from the commencement of the year of assessment in which the undertaking commences to carry on commercial operations.

(2) For the purposes of subsection (1) “specified undertaking” in relation to company means an undertaking carried on by such company on or after April 1, 2002 and which is engaged in any such activity relating to infrastructure development as may be determined by the Minister by Order published in the Gazette, having regard to the interests of the national economy.”.

Insertion of new section 22A in the principal enactment.

14. The following new section is hereby inserted immediately after section 22 of the principal enactment and shall have effect as section 22A of that enactment :—

“The profits and income of a person making a declaration under section 2 of the Inland Revenue (Special Provisions) Act, No. 7 of 2002 shall not be exempted from income tax.

22A. Notwithstanding anything contained in this Act, the profits and income within the meaning of paragraph (a) of section 3 of any person who makes a declaration under section 2 of the Inland Revenue (Special Provisions) Act, No. 7 of 2002 shall not be exempted from income tax for any year of assessment commencing on or after April 1, 2003.”.

Amendment of section 23 of the principal enactment.

15. Section 23 of the principal enactment is hereby amended in subsection (1) of that section as follows :—

- (1) in sub-paragraph (i) of paragraph (b) of that subsection by the substitution, for the words “or subparagraph (iii)”, of the words “or sub-paragraph (iii) or (vi)”;
- (2) by the insertion immediately after sub -paragraph (v) of paragraph (b) of that subsection of the following sub-paragraph :—

“(vi) any computer hardware acquired by such person on or after April 1, 2002 and arising out of its use in any trade, business, profession or vocation carried on or exercised by him at the rate of one hundred *per centum* on its cost of acquisition;”;

- (3) in paragraph (c) of that subsection by the substitution for all the words from “a sum equal to one tenth” to “business carried on by him” of the following :—

“(c) A sum equal to —

- (i) one-tenth of any payment made for any year of assessment commencing prior to April 1, 2002;

- (ii) a sum equal to one-fourth of any payment made in any year of assessment commencing on or after April 1, 2002,

by such person as consideration for obtaining a licence, in his favour, of any manufacturing process used by such person in any trade or business carried on by such person;”;

- (4) by the insertion, immediately after paragraph (c) of that subsection, of the following paragraph :—

“(cc) a sum equal to one-fourth of any payment made by such person in any year of assessment commencing on or after April 1, 2002 in the acquisition of any intangible asset such as a patent, copyright or trade mark (other than any goodwill) used by him in any trade or business carried on by him :

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

- (5) in paragraph (d) of that subsection , by the substitution for all the words from “such allowance being” to “computer software”, of the following :—

“such allowance being :—

- (i) in the case of the year of assessment commencing prior to April 1, 2002, an amount equal to fifty *per centum* ;
- (ii) in the case of every year of assessment commencing on or after April 1, 2002, an amount equal to one hundred *per centum*,

of the cost of acquisition of such computer software;”;

*Inland Revenue (Amendment)
Act, No. 10 of 2002*

- (6) by the repeal of the proviso to paragraph (f) of that subsection and the substitution of the following proviso therefor :—

“Provided that the sum deductible under this sub-paragraph shall, in the case of a company carrying on the business of letting premises for commercial purposes —

- (i) for any year of assessment commencing prior to April 1, 2002, not exceed ten *per centum* ;
- (ii) for any year of assessment commencing on or after April 1, 2002, insofar as it relates to the repairs of such premises, not exceed twenty-five *per centum*,

of the gross rent receivable by such company for such premises;”;

- (7) in paragraph (k) of that subsection by the substitution for the words “the expenditure incurred” of the words and figures “the expenditure incurred in any year of assessment commencing on or after April 1, 2000 but prior to April 1, 2002”;

- (8) by the insertion, immediately after paragraph (k) of that subsection of the following paragraph :—

“(kk) the expenditure including capital expenditure incurred in any year of assessment commencing on or after April 1, 2002 by such person in carrying on any scientific, industrial, agricultural or any other research for the upgrading of any trade or business carried on by such person;”;

- (9) in sub-paragraph (iii) of paragraph (t) of that subsection by the substitution for the words “performance of such trade or business.”, of the following :—

“performance of such trade or business :

Provided that any expenditure incurred in any year of assessment commencing on or after April 1, 2002 by such person in training shall be deductible, irrespective of the length of the period of training.”.

16. Section 24 of the principal enactment is hereby amended as follows :—

Amendment of section 24 of the principal enactment.

(1) in subsection (1) of that section —

(a) in sub-paragraph (iii) of paragraph (c) of that subsection by the substitution for the words “in accordance with such paragraph,” of the following :—

“in accordance with such paragraph :

Provided that a deduction may be allowed in respect of any expenditure incurred, by such person in any year of assessment commencing on or after April 1, 2002 if such expenditure incurred in travelling outside Sri Lanka is directly related to any trade, business, profession or vocation carried on, or exercised by such person. ; ” ;

(b) in sub-paragraph (ii) of paragraph (d) of that subsection, by the substitution for the words “accordance with the provision of such paragraph;”, of the following :—

“accordance with the provisions of such paragraph :

Provided that a deduction may be allowed in respect of any such expenditure incurred by such person in any year of assessment commencing on or after April 1, 2002, if such expenditure incurred in travelling outside Sri Lanka is directly related to the carrying on of such business;”;

- (c) in paragraph (e) of that subsection by the substitution for the words “exercised by him;” of the following :—

“exercised by him :

Provided that a deduction may be allowed in respect of such entertainment expenses incurred by such person or on his behalf, in any year of assessment commencing on or after April 1, 2002, if the expenses so incurred are directly related to any trade, business, profession or vocation carried on, or exercised by such person;”;

- (d) in paragraph (f) of that subsection, by the substitution, for the words “his executive officer”, of the words “his executive officer, in any year of assessment commencing prior to April 1, 2002”; and

- (2) by the addition, immediately after subsection (3) thereof of the following subsection :—

“(4) In computing the statutory income of any person from any trade, business, profession or vocation carried on or exercised by such person, no deduction shall be allowed under section 23 or section 24 in respect of any expenditure unless the amount of such expenditure is paid within three years from the end of the year of assessment in which such expenditure is incurred.”.

Amendment of section 29 of the principal enactment.

17. Section 29 of the principal enactment is hereby amended as follows :—

- (1) by the insertion immediately after subsection (1) of that section of the following subsection :—

“(1A) The assessable income of a person (other than a company) for any year of assessment commencing on or after April 1, 2002, shall notwithstanding anything contained in

subsection (1), be his total statutory income for that year other than the —

- (a) statutory income from interest on which income tax has been deducted under section 122A; and
- (b) statutory income from dividends on which income tax has been deducted under subsection (1A) of section 61, whether received directly from such company which distributes the dividend or through any other company,

subject to the deductions, specified in this section :

Provided however, where such income from interest or dividends from which income tax has been deducted under section 122A or subsection (1A) of section 61, as the case may be, have been received by a person in the course of carrying on any trade or business as a receipt from such trade or business, such income from interest or dividends shall form part of the total statutory income of such person.”;

(2) in subsection (2) of that section —

- (a) by the substitution, in paragraph (a) of that subsection for the words “payable by such person”, of the words “payable for that year of assessment being a year of assessment commencing prior to April 1, 2002 by such person.”;
- (b) by the insertion, immediately after paragraph (a) of that subsection of the following :—

“(aa) sums paid by such person for any year of assessment commencing on or after

April 1, 2002 by way of an annuity, ground rent, royalty or interest not deductible under section 23 :

Provided that —

- (i) no deduction shall be allowed in respect of any sum paid by way of interest, annuity, ground rent or royalty by a person out of Sri Lanka to another person out of Sri Lanka ;
- (ii) where for any year of assessment any such sum paid exceeds the total statutory income for that year, the excess shall be treated for the purposes of this section in the same manner as a loss incurred in a trade during that year;
- (iii) where any sum is paid by such person by way of an annuity no deduction shall be allowed in respect of such sum unless such annuity is —
 - (a) paid under an order of court by way of payment of alimony or maintenance ;
 - (b) paid to his spouse under a duly executed deed of separation;
 - (c) in return, for full consideration in money or moneys worth.

For the purposes of this paragraph the term “interest” means any interest paid during any year of assessment on any loan obtained from a bank, financial institution or any other institution recognised by the Commissioner-General.”.

18. Section 30 of the principal enactment is hereby amended in subsection (1) of that section as follows :—

Amendment of section 30 of the principal enactment.

(1) by the repeal of paragraph (a) of that subsection and the substitution of the following paragraph therefor :—

“(a) and allowance of —

- (i) one hundred and forty four thousand rupees, in respect of every year of assessment commencing prior to April 1, 2002; or
- (ii) two hundred and forty thousand rupees, in respect of every year of assessment commencing on or after April 1, 2002 ;”;

(2) by the insertion immediately after the first proviso to that subsection of the following :—

“Provided further, that any person who makes a declaration under section 2 of the Inland Revenue (Special Provisions) Act, No. 7 of 2002, shall not, in ascertaining his taxable income, be entitled to deduct any allowance under paragraph (b) on any investment or expenditure made or incurred relating to any investment made in such declaration.”.

19. Section 31 of the principal enactment is hereby amended as follows :—

Amendment of section 31 of the principal enactment.

(1) in subsection (2) of that section —

- (a) in paragraph (h) of that subsection by the substitution for the words “projection on a screen in a cinema.”; of the words “projection on a screen in a cinema ;”;
- (b) by the addition, immediately after paragraph (h) of that subsection, of the following paragraphs :—

“(i) any expenditure incurred, otherwise than out of a loan referred to in paragraph (j)

*Inland Revenue (Amendment)
Act, No. 10 of 2002*

on or after April 1, 2002, by an individual in either the construction or the purchase of a house being in either case the first house constructed or purchased by such individual on or after April 1, 2001 ;

- (j) any expenditure incurred, on or after April 1, 2002, by an individual on the repayment of the capital of any approved housing loan either for the construction or the purchase of a house being in either case the first house constructed or purchased by such individual on or after April 1, 2001.

For the purpose of this paragraph “approved Housing loan” means any housing loan obtained from the Government, or any banking institution within the meaning of the Monetary Law Act, or any Provincial Fund, any local authority or any other institution approved by the Minister in charge of the subject of Housing.”;

- (2) in paragraph (a) of subsection (4) of that section –
- (a) in sub-paragraph (v) of that paragraph by the substitution for the words “twenty five thousand rupees”, of the words “twenty-five thousand rupees .”;
- (b) by the insertion immediately after sub-paragraph (v) of that subsection of the following sub-paragraph :–
- “(vi) in respect of all qualifying payments referred to in paragraphs (i) and (j) of subsection (2) made by him in that year of assessment, shall not exceed one-third of the assessable income or one hundred thousand rupees which ever is less.”;

- (3) by the addition immediately after subsection (6) of that section of the following subsection :—

“(6A) The excess of the allowance of any qualifying payment referred to in paragraph (i) of subsection (2) which cannot be deducted from the assessable income in the year of assessment in which such expenditure is incurred may be apportioned over a period of not more than nine years immediately succeeding the year of assessment in which such expenditure was incurred and such apportioned amount shall be deemed to be a qualifying payment made in each such year of assessment.”.

20. Section 32 of the principal enactment is hereby amended as follows :—

Amendment of section 32 of the principal enactment.

- (1) in subsection (1) of that section, by the substitution, in paragraph (a) of that subsection, for the words and figures “Part I of the First Schedule”, of the words and figures “Parts I and IA of the First Schedule”;
- (2) in subsection (2) of that section –
- (a) by the substitution, for the words and figures, “Part III of the First Schedule”, of the words and figures “Parts III and IIIA of the First Schedule”;
- (b) in the proviso to that subsection by the substitution for all the words from “such sum”, to the end of that proviso, of the words “such sum shall be chargeable with income tax in the manner provided for in subsection (3) as if the references in that subsection to ‘capital gain’ were references to ‘such sum’”;

- (3) in subsection (4) of that section, by the substitution, for the words “a person includes any capital gain”, of the words “a person, for any year of assessment commencing prior to April 1, 2002, includes any capital gain”;
- (4) in subsection (5) of that section, by the substitution, for the words “a person includes any capital gain”, of the words and figures “a person, for any year of assessment commencing prior to April 1, 2002, includes any capital gain”; and
- (5) in subsection (6) of that section, by the substitution, for the words “a person includes any capital gains”, of the words and figures “a person, for any year of assessment commencing prior to April 1, 2002, includes any capital gain”;

Insertion of new sections 40A and 40B of the principal enactment.

21. The following new sections are hereby inserted immediately after section 40 of the principal enactment and shall have effect as sections 40A and 40B respectively of that enactment :—

‘Rate of income tax applicable to specialized housing banks.

40A. (1) Where the taxable income of any company carrying on the business of a specialized housing bank for any year of assessment commencing on or after April 1, 2002 includes any profits and income within the meaning of paragraph (a) of section 3 from such business such part of such taxable income as consists of such profits and income, shall, notwithstanding anything to the contrary in this Act, be chargeable with income tax at the rate of twenty *per centum*.

(2) For the purposes of this section “specialized housing bank” means a licensed commercial or specialized bank within the meaning of the Banking Act, No. 30 of 1988 which is engaged in lending money only for activities relating to residential housing.

Rate of income tax applicable to certain companies after the expiry of tax exemption.

40B. (1) The profits and income within the meaning of paragraph (a) of section 3 of any company referred to in section 21B for any year of assessment commencing after the expiry of the period during which the profits and income of such company were exempt from income tax shall, notwithstanding anything contained in this Act, be chargeable with income tax at the rate of fifteen *per centum*.

(2) The profits and income within the meaning of paragraph (a) of section 3 of any company referred to in section 21A, shall notwithstanding anything containing in this Act, for –

- (a) each of the two years of assessment immediately succeeding the period during which the profits and income of such company were exempt from income tax, be taxed at the rate of ten *per centum* ;
- (b) every year of assessment commencing after the expiry of the period referred to in paragraph (a) –
 - (i) if such company is a company engaged in agriculture or the export of non-traditional products, be taxed at fifteen *per centum* ; and
 - (ii) if such company is a company other than a company engaged in agriculture or the export of non-traditional products, be taxed at twenty *per centum*.’.

22. The following new section is hereby inserted immediately after section 48 of the principal enactment and shall have effect as section 48A of that enactment :—

Insertion of new section 48A in the principal enactment.

“Rate of income tax on certain dividends.

48A. Where the taxable income of any person (other than a company) for any year of assessment includes a dividend declared on or

after April 1, 2002 in the form of shares or debentures, the taxable income representing such dividend shall be taxed at the rate of ten *per centum*.”.

Amendment of section 53 of the principal enactment.

23. Section 53 of the principal enactment amended by Act, No. 8 of 2001, is hereby further amended in subsection (1) of that section as follows :—

- (1) in paragraph (a) of that subsection, by the substitution for the words “to this Act ; and”, of the words “to this Act ;

Provided that where the income tax payable by a company for any year of assessment commencing on or after April 1, 2002 exceeds one million rupees, the amount by which the income tax payable by such company exceeds one million rupees shall not be more than the amount by which the taxable income of such company exceeds five million rupees ; and

- (2) in paragraph (b) of that subsection, by the substitution for the words “in that year of assessment”, of the words and figures “in that year of assessment being a year of assessment commencing prior to April 1, 2002 ;”;
- (3) by the insertion, immediately after paragraph (b) of that subsection of the following paragraph :—

“(bb) equal to ten *per centum* of the aggregate amount of the gross dividends distributed by such company in that year of assessment; being an year of assessment commencing on or after April 1, 2002 out of the profits on which the taxable income of such company is computed for any year of assessment ;”;

- (4) in paragraph (c) of that subsection by the substitution for the words “that year of assessment”, of the words “that year of assessment being an year of assessment commencing prior to April 1, 2002 ;”.

24. Section 54 of the principal enactment is hereby amended in subsection (1) of that section, by the substitution for the words “for every year of assessment” of the words “for every year of assessment commencing prior to April 1, 2002”.

Amendment of section 54 of the principal enactment.

25. Section 57 of the principal enactment is hereby amended in paragraph (a) of subsection (1) of that section by the substitution for the words “specified in the Second Schedule; and” of the words “specified in the Second Schedule to this Act :

Amendment of section 57 of the principal enactment.

Provided that where the income tax payable by such company for any year of assessment on or after April 1, 2002 exceeds one million rupees, the amount by which the income tax payable by such company exceeds one million rupees shall not be more than the amount by which the taxable income of such company exceeds five million rupees.

26. Section 60 of the principal enactment is hereby amended by the substitution for all the words from “which becomes payable to fifteen *per centum*” of the words :—

Amendment of section 60 of the principal enactment.

“which becomes payable in any year of assessment commencing prior to March 31, 2002 to any non resident person if the relevant dividend consists of the whole or any part of the amount of a dividend not being the whole or any part of a dividend which is exempt from income tax under this Act, distributed by any quoted public company on or before March 31, 2002 and received either directly or through one or more intermediary companies, by such resident company, income tax equivalent to ten *per centum*.”.

Amendment of section 61 of the principal enactment.

27. Section 61 of the principal enactment is hereby amended as follows :-

- (1) in subsection (1) of that section, by the substitution for the words “payable to any shareholder” of the words “payable to a shareholder in any year of assessment commencing prior to April 1, 2002”; and
- (2) by the insertion, immediately after subsection (1) of that section, of the following subsection :-

“(1A) Every resident company, shall be entitled to deduct from the amount of any gross dividend payable to any shareholder, on or after April 1, 2002, in the form of money or an order to pay money out of profits on which the taxable income of that company is computed for any year of assessment, income tax equal to ten *per centum*.”; and

- (3) in subsection (6) of that section, by the substitution, for the words and figures “under subsection (1)”, of the words and figures “under subsection (1) or (1A)”.

Amendment of section 122 of the principal enactment.

28. Section 122 of the principal enactment is hereby amended in subsection (1) of that section, by the substitution for the words “in any year of assessment”, of the words and figures “in any year of assessment commencing prior to April 1, 2002”.

Insertion of new section 122A in the principal enactment.

29. The following new section is hereby inserted immediately after section 122 of the principal enactment and shall have effect as section 122A of that enactment :-

“Bank or financial institution to deduct income tax on interest paid.

122A. (1) Every bank or financial institution shall, subject to the provisions of this Chapter, deduct at the time of payment, from the interest payable by it in any year of assessment commencing on or after April 1, 2002, on any sum of money –

- (a) deposited with it by any person or partnership in his or its own name or in

the name of any other person or without
the name of any person or partnership ;
and

- (b) the interest payable on which is not less
than six thousand rupees per month or
seventy two thousand rupees a year,

income tax at the rate of ten *per centum* on the
total amount of the interest earned on such
deposit :

Provided however, the provisions of this
section shall not apply in respect of a institution
certified by the Commissioner - General, as a
charitable institution on any interest which is
not in excess of twelve thousand rupees per
month or one hundred and forty four thousand
rupees a year accruing to such institution on any
deposit :

Provided further that where a person or a
partnership requests in writing to a bank or
financial institution to deduct income tax at the
rate of ten *per centum* from any interest payable
to such person or partnership in any year of
assessment, on a sum of money deposited by
such person or partnership with such bank or
financial institution, then such bank or financial
institution shall comply with such request
notwithstanding that the interest payable on such
sum of money for that year of assessment is less
than seventy two thousand rupees.

(2) For the purposes of a deduction under
this section –

- (a) “interest” in relation to the deposit of a sum
of money includes interest, discount or any
other amount payable to, or accruing to
the benefit of the person or partnership in

whose name, or on whose behalf the sum of money is deposited but does not include any interest exempt under section 10 or any interest payable to any Ministry, Government Department or any local government institution or any institution under a Provincial Council or any Foreign Government ;

- (b) in the case of a discount, interest shall be deemed to have been paid at the time such discount is allowed.

(3) Where the Commissioner-General is satisfied that any bank or financial institution has devised a method to contravene the provisions of subsection (1) as regards the deduction of tax, the Commissioner-General may impose on such bank or financial institution a penalty of a sum equivalent to five hundred *per centum* of the tax avoided by the use of such method.

For the avoidance of doubt it is hereby declared that “deduct at the time of payment from the interest payable” in subsection (1) shall include any amount of interest credited to any account.”.

Amendment of section 124 of the principal enactment.

30. Section 124 of the principal enactment is hereby amended in subsection (1) of that section, by the substitution, for the words “any year of assessment is less”, of the words “any year of assessment commencing prior to April 1, 2002 is less”.

Amendment of section 131 of the principal enactment.

31. Section 131 of the principal enactment amended by Act, No. 8 of 2001 is hereby further amended in subsection (2) of that section as follows :—

- (1) in paragraph (b) of the definition of “specified fee”, by the substitution for the words and figures “to any

year of assessment commencing on or after April 1, 2001”, of the words and figures “to the year of assessment commencing on April 1, 2001”.

(2) by the addition at the end of that subsection of the following :—

(c) in relation to any year of assessment commencing on or after April 1, 2002, means any sum or sums aggregating to not less than—

(i) fifty thousand rupees per month ; and

(ii) five hundred thousand rupees a year in any other case,

payable by any specified person in that year of assessment to any person or partnership in consideration of services rendered by that person or partnership as the case may be, in the course of any business, profession, vocation or other activities of an independent character carried on or exercised by that person or partnership, as the case may be, and includes any commission, brokerage or other sums of like nature payable by such specified person, but does not include any sum payable by such specified person to any employee of such specified person in the course of employment under such specified person or any rent or other payment payable for the use or occupation of any specified land or building as defined in subsection (2) of section 131B.”.

32. The following new Chapter is hereby inserted immediately after Chapter XVI of the principal enactment and shall have effect as Chapter XVIA of that enactment :—

Insertion of new Chapter XVIA in the principal enactment.

“CHAPTER XVIA

DEDUCTION OF INCOME TAX FROM RENT, LEASE RENT OR OTHER
PAYMENT PAID BY ANY PERSON OR PARTNERSHIP FOR THE USE OR
OCCUPATION OF ANY LAND OR BUILDING OTHER THAN FOR
RESIDENTIAL PURPOSES

Persons
paying rent,
lease rent etc.
to deduct
income tax.

131A. Every person or partnership paying any rent, lease rent or other payment for the use or occupation otherwise than as a residence, of any specified land or building on or after April 1, 2002 shall deduct at the time of the payment of such rent, lease rent or other payment, income tax at the rate of ten *per centum* of such rent, lease rent or other payment.

Application
of the
provisions of
Chapter XV
to this
Chapter.

131B. (1) The provisions of Chapter XV relating to the deduction of income tax from interest paid by banks and financial institutions, credit for income tax so deducted, duties of banks and financial institutions, default in the deduction of income tax, issue of assessments on banks and financial institutions, appeals and penalty for default shall, *mutatis mutandis* apply to the deduction of income tax from such rent, lease rent or other payments as is mentioned in section 131A, credit for income tax so deducted, duties of persons liable to pay such rent, lease rent, or other payment, default in the deduction of income tax, issue of assessments on such persons, appeals and penalty for default under this Chapter, as if there were substituted in Chapter XV for the words “banks and financial institutions” of the words “persons liable to pay such rent, lease rent or other payment” and for the word “interest” of the words “rent, lease rent or other payment” wherever they appear in that Chapter, subject however, to the modification that credit for income tax deducted under the

provisions of this Chapter by any person from any rent, lease rent or any other payment paid to any co-owners of such property shall be apportioned among such co-owners in proportion to their rights of ownership in such property.

(2) For the purposes of this Chapter—

“specified land or building” means a land or building in respect of which the amount of rent, lease rent or other payment payable for any calendar month or part thereof is not less than fifty thousand rupees or the aggregate rent, lease rent or other payment payable for any year is not less than five hundred thousand rupees.”.

33. Section 186 of the principal enactment is hereby amended in the definition of “executive officer” by the substitution for the words “not less than five thousand rupees”; of the words “not less than twenty thousand rupees;

Amendment of section 186 of the principal enactment.

34. The First Schedule to the principal enactment amended by Act, No. 8 of 2001 is hereby further amended as follows :—

Amendment of the Fifth Schedule to the principal enactment.

- (1) In Part I of that Schedule by the substitution for the words and figures “referred to in Part II” of the words and figures “referred to in Part II for any year of assessment commencing prior to April 1, 2002” ;
- (2) by the insertion immediately after Part I of that Schedule of the following Part :—

“PART 1A

Individuals other than those referred to in Part II, for any year of assessment commencing on or after April 1, 2002

On the first Rs. 180,000 of the taxable income

10 per centum

*Inland Revenue (Amendment)
Act, No. 10 of 2002*

On the next Rs. 180,000 of the taxable income

20 per centum

on the balance *35 per centum*" ;

- (3) In Part III of that Schedule by the substitution for the words and figures "subsection (2) of section 32", of the words and figures "subsection (2) of section 32 for every year of assessment commencing prior to April 1, 2002" ; and
- (4) by the addition at the end of that Schedule, of the following :—

"PART IIIA

The rate of income tax applicable to certain profits from employment specified in subsection (2) of section 32, for any year of assessment commencing on or after April 1, 2002—

on the first Rs. 1,000,000	...	Nil
on the next Rs. 500,000	...	<i>5 per centum</i>
on the next Rs. 500,000	...	<i>10 per centum</i>
on the balance	...	<i>15 per centum</i> ."

Amendment of the First Schedule to the principal enactment.

35. The Second Schedule to the principal enactment is hereby amended as follows :—

- (1) by the substitution, for the words "unit trust and mutual fund", enactment of the words and figures "unit trust and mutual fund for every year of assessment commencing prior to April 1, 2002" ; and
- (2) by the addition, at the end of that Schedule of the following :—

"company, including unit trust and mutual fund for every year of assessment commencing on or after April 1, 2002—

where the taxable income of the company, unit trust or mutual fund does not exceed Rs. 5,000,000 in that year of assessment

20 per centum

where the taxable income of the company, unit trust or mutual fund exceeds Rs. 5,000,000 in that year of assessment

35 per centum.”

36. The Fifth Schedule to the principal enactment is hereby amended by the substitution for the words “advance company tax shall be as follows :—” of the following :—

Amendment of the Fifth Schedule to the principal enactment.

“advance company tax for every year of assessment commencing on or after April 1, 2000 but prior to April 1, 2002 shall be as follows :—”.

37. (1) Any person who, or any partnership which, deducts tax and remits such tax to the Commissioner-General as provided for in section 122A, 131 or 131A, as the case may be during the period commencing on April 1, 2002 to the date of commencement of this Act, shall be deemed to have acted with due authority and is hereby indemnified from any civil or criminal prosecution in respect of such deduction and remittance.

Indemnity.

(2) Any bank or financial institution which for reasons beyond its control has been unable to deduct such tax as is provided for in section 122A for the period commencing on April 1, 2002 to the date of commencement of this Act, shall where the Commissioner-General is satisfied that the inability to deduct such tax was for reasons beyond the control of such bank or financial institution, be deemed not to have contravened the said provisions of this Act.

38. In the event of any inconsistency between the Sinhala and Tamil texts of this Act, the Sinhala text shall prevail.

Sinhala text to prevail in case of inconsistency.

Annual subscription of English Bills and Acts of the Parliament Rs. 885 (Local), Rs. 1,180 (Foreign), Payable to the SUPERINTENDENT, GOVERNMENT PUBLICATIONS BUREAU, No. 32, TRANSWORKS HOUSE, LOTUS ROAD, COLOMBO 01 before 15th December each year in respect of the year following.