PARLIAMENT OF THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

INLAND REVENUE (AMENDMENT) ACT, No. 4 OF 2023

[Certified on 08th of May, 2023]

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Inland Revenue (Amendment)
Act, No. 4 of 2023

[Certified on 08th of May, 2023]

L.D.—O. 10/2023

AN ACT TO AMEND THE INLAND REVENUE ACT, NO. 24 OF 2017

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

Short title and the date of operation

1. (1) This Act may be cited as the Inland Revenue (Amendment) Act, No. 4 of 2023.

(2) The provisions of this section and sections 2, 4, 7, 8, 9, 11, 13, 15, 16, 19 and 22 of this Act shall come into operation on the date on which the Bill becomes an Act of Parliament.

(3) The provisions of this Act specified in *Column I* of the table below which amend the provisions of the Inland Revenue Act, No. 24 of 2017 (hereinafter referred to as the "principal enactment") specified in *Column II* of that table, shall come into operation or be deemed to have come into operation, as the case may be, on the respective dates as specified in *Column III* of that table.

Table

Column I	*Column II*	*Column III*
Section of this Act	*Section of the principal enactment which is amended*	*Date of operation*
3	37(1)(*b*)	01.04.2021
5	84A(1B)	01.01.2023
6	85(4)	01.01.2023
10	113(1)(*b*), 113(1)(*bb*), 113(1A), 113(1B) and 113(1C)	01.04.2023
12	135(3), 135(3A) and 135(4)	01.04.2023

Column I	*Column II*	*Column III*
Section of this Act	*Section of the principal enactment which is amended*	*Date of operation*
14	150(1)(*a*), 150(1)(*b*), 150(1)(*c*) and 150(2A)	01.04.2023
17	195	01.04.2018
18	subparagraph (1) of paragraph 4, item (*d*)(iii) of subparagraph (1) of paragraph 10 and paragraph 13 of the First Schedule	01.10.2022
20	paragraph (*gg*) of the Third Schedule	01.04.2022
20	subparagraphs (ii) and (iii) of paragraph (*ooo*) of the Third Schedule	01.10.2022
20	paragraph (*tt*) and subparagraphs (ii), (v) and (vi) of paragraph (*w*) of the Third Schedule	01.04.2023
20	paragraph (*x*) of the Third Schedule	27.05.2021
21	–	01.10.2022

Amendment of section 10 of the principal enactment

2. Section 10 of the principal enactment is hereby amended by the insertion immediately after subsection (2) of that section, of the following new subsection: -

"(2A) (*a*) Where a person pays to another person, on or after the date of commencement of this (Amendment) Act, a sum of money amounting in the aggregate to Rs. 500,000 or more, in a day, or in respect of a single transaction, or in respect of a series of single transactions relating to one event, otherwise than by way of an account payee cheque or account payee bank draft or by the use of a credit card, debit card or electronic payment system through a bank account-

(i) any deduction shall not be allowed in respect of such payments in calculating the first mentioned person's income; and

(ii) the amounts paid shall not be considered as cost of an asset of the first mentioned person.

(*b*) The provisions of paragraph (*a*) shall not apply to-

(i) any payment by the Government of Sri Lanka or any Government institution;

(ii) any payment by a bank or financial institution; and

(iii) such classes of persons or payments as may be prescribed by the Minister.

(*c*) For the purpose of this subsection-

"bank account" means any account maintained in a bank or financial institution in Sri Lanka;

"Government institution" means any Department or undertaking of the Government of Sri Lanka and includes any public corporation; and

"single transaction" means the purchase or procurement of any goods or services, on a single invoice, receipt or statement.".

Amendment of section 37 of the principal enactment

3. Section 37 of the principal enactment is hereby amended in paragraph (*b*) of subsection (1) of that section, by the substitution for the words "the asset;", of the words and figures "the asset prior to April 1, 2021 and in improving the asset on or after April 1, 2021;".

Amendment of section 73 of the principal enactment

4. Section 73 of the principal enactment is hereby amended in paragraph (*a*) of subsection (1) of that section as follows:–

(1) in sub-paragraph (i) of that paragraph, by the substitution for the words "paid; or", of the word "paid;";

(2) in sub-paragraph (ii) of that paragraph, by the substitution for the words "employment is;", of the words "employment is; or"; and

(3) by the addition immediately after sub-paragraph (ii) of that paragraph, of the following new sub-paragraph:-

"(iii) to the extent derived from a company resident and conducting the business in Sri Lanka;".

Amendment of section 84A of the principal enactment

5. Section 84A of the principal enactment is hereby amended by the insertion immediately after subsection (1A) of that section, of the following new subsection:-

"(1B) For the purpose of subsection (1A), "a person" includes the Government of Sri Lanka, in the case of a payment made to a non-resident person other than a payment derived through a Sri Lankan permanent establishment.".

Amendment of section 85 of the principal enactment

6. Section 85 of the principal enactment is hereby amended by the addition immediately after subsection (3) of that section, of the following new subsection: -

"(4) For the purpose of this section, "a person" includes the Government of Sri Lanka, in the case of a payment made to a non-resident person other than a payment derived through a Sri Lankan permanent establishment.".

Amendment of section 86 of the principal enactment

7. Section 86 of the principal enactment is hereby amended by the addition immediately after subsection (6) of that section, of the following new subsections: -

"(7) The Commissioner-General may specify the procedure of withholding the tax from any payment made to a non-resident person under this Division. Every withholding agent and financial institution shall comply with such procedure.

(8) Every withholding agent who has deducted Advance Income Tax under the provisions of section 84A shall file with the Commissioner-General a quarterly statement as specified by the Commissioner-General, within thirty days after the end of each quarter, ending on the thirtieth day of June, thirtieth day of September and thirty first day of December.".

Amendment of section 100 of the principal enactment

8. Section 100 of the principal enactment is hereby amended in subsection (1) of that section, by the insertion immediately after paragraph (*b*) of that subsection, of the following new paragraph:-

"(*bb*) the Director-General of the Department of Fiscal Policy, for the purpose of making decisions on the tax policy and Government revenue;".

Insertion of new section 111A in the principal enactment

9. The following new section is hereby inserted immediately after section 111 of the principal enactment, and shall have effect as section 111A of that enactment:-

"Opinion of the Secretary to the Treasury on underlying tax policy

111A. The Commissioner-General may obtain opinion or observation of the Secretary to the Treasury on the underlying tax policy relating to any provision of this Act, for the purpose of interpretation of such provisions under this Division or Division III of this Chapter, or for any tax Act administered by the Commissioner-General.".

Amendment of section 113 of the principal enactment

10. Section 113 of the principal enactment is hereby amended as follows:-

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

(*a*) in paragraph (*b*) of that subsection, by the substitution for the words and figures "Subject to subsection (1A),", of the words and figures "Subject to subsection (1A), prior to April 1, 2023,";

(*b*) by the insertion immediately after paragraph (*b*) of that subsection, of the following new paragraph: -

"(*bb*) the filing of any other document under this Act;";

(2) in subsection (1A) of that section, by the substitution for the words "A company", of the words and figures "Prior to the year of assessment commencing from April 1, 2023, a company"; and

(3) by the insertion immediately after subsection (1A) of that section, of the following new subsections: -

"(1B) Subject to subsection (1C), with effect from the year of assessment commencing from April 1, 2023, a person shall file such person's tax returns electronically through the use of a computer system or mobile electronic device.

(1C) The Commissioner-General may authorise a person to file a tax return in writing, for a year of assessment, where the Commissioner-General considers that such authorisation is just and equitable in the circumstances of the case.".

Amendment of section 123 of the principal enactment

11. Section 123 of the principal enactment is hereby amended by the addition immediately after subsection (7) of that section, of the following new subsection: -

"(8) Notwithstanding anything to the contrary in any other written law –

(*a*) the Registrar-General of the Registrar General's Department;

(*b*) the Registrar-General of Companies;

(*c*) the Commissioner-General of Motor Traffic;

(*d*) an officer of any other Government institution in charge of granting contracts for the supply of goods, works, or consulting and non-consulting services;

(*e*) a financial institution;

(*f*) a stock exchange; or

(*g*) any other person or a Government institution as may be prescribed by regulations,

shall provide on a regular basis in electronic format, such information including information on financial transactions, or access to such records that are in any of such person's or institution's custody, as may be prescribed, to the Commissioner-General.".

Amendment of section 135 of the principal enactment

12. Section 135 of the principal enactment is hereby amended as follows: -

(1) in subsection (3) of that section, by the substitution for the words "where the Assistant Commissioner", of the words and figures "for any year of assessment commencing prior to April 1, 2023, where the Assistant Commissioner";

(2) by the insertion immediately after subsection (3) of that section, of the following new subsection: -

"(3A) Subject to subsection (4), where the Assistant Commissioner has served a notice of an amended assessment on a tax payer under subsection (1), the Assistant Commissioner may further amend the original assessment to which the amended assessment relates, within-

(*a*) the period specified in paragraph (*b*) of subsection (2); or

(*b*) a period of one year after the Assistant Commissioner served the notice of the amended assessment on the tax payer,

whichever occurs later."; and

(3) in subsection (4) of that section, by the substitution for the word and figure "subsection (3)", of the word and figures "subsection (3A)".

Amendment of section 139 of the principal enactment

13. Section 139 of the principal enactment is hereby amended in subsection (5) of that section as follows: -

(1) in paragraph (*a*) of that subsection, by the substitution for the words "in writing", of the words "in writing or by electronics means"; and

(2) by the addition immediately after paragraph (*b*) of that subsection, of the following new paragraph: -

"(*c*) The Commissioner-General shall, in the case of a request for review made on or after the date of commencement of this (Amendment) Act, notify his decision and the reason for the decision under paragraph (*a*) within a period of two years from the date on which such request

for review is received by the Commissioner-General. Where such decision is not notified within such period, the request for review shall be deemed to have been allowed**,** unless an appeal has been preferred to the Tax Appeals Commission in accordance with paragraph (*b*) of subsection (2) of section 140.".

Amendment of section 150 of the principal enactment

14. Section 150 of the principal enactment is hereby amended as follows: -

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

(*a*) in paragraph (*a*) of that subsection, by the substitution for the words "assessed liability to pay tax,", of the words "assessed liability or payable amount of tax,";

(*b*) in paragraph (*b*) of that subsection, by the substitution for the words "six months.", of the words "six months; or";

(*c*) by the addition immediately after paragraph (*b*) of that subsection, of the following new paragraph: -

"(*c*) at the request of the taxpayer, set off sixty percent of the refundable amount against the subsequent income tax payable by the taxpayer, prior to a tax audit on the refund claim."; and

(2) by the insertion immediately after subsection (2) of that section, of the following new subsection: -

"(2A) (*a*) If the taxpayer referred to in subsection (2) is a resident individual and the refund claim is not exceeding one hundred

thousand rupees, the Commissioner-General shall pay the refund amount due, within three months of the date of the refund claim made by such resident individual, prior to a tax audit:

Provided that, if such resident individual is a senior citizen who is not an instalment payer and his refund claim is not exceeding twenty five thousand rupees for any quarter ending on the thirtieth day of June, thirtieth day of September, thirty first day of December and thirty first day of March, such refund claim shall be paid within three months of the date of the refund claim made by such resident individual, prior to a tax audit.

(*b*) The manner and the procedure relating to the payment of the refund amount due under paragraph (*a*), may be specified by the Commissioner-General.".

Amendment of section 154 of the principal enactment

15. Section 154 of the principal enactment is hereby amended in paragraph (*b*) of subsection (2) of that section, by the substitution for the words "collected pursuant.", of the words "collected pursuant to a levy of execution or by way of garnishment in accordance with the provisions of this Act.".

Amendment of section 182 of the principal enactment

16. Section 182 of the principal enactment is hereby amended by the addition immediately after subsection (4) of that section, of the following new subsection: -

"(5) A financial institution that fails to comply with the procedure specified by the Commissioner-General in terms of subsection (7) of section 86, shall be liable for a penalty of an amount not exceeding fifty thousand rupees.".

Amendment of section 195 of the principal enactment

17. Section 195 of the principal enactment is hereby amended by the insertion immediately after the definition of the expression "tax" of that section, of the following new definition:–

"Tax Appeals Commission" means, the Tax Appeals Commission established by the Tax Appeals Commission Act, No. 23 of 2011;".

Amendment of the First Schedule to the principal enactment

18. The First Schedule to the principal enactment is hereby amended as follows: -

(1) in subparagraph (1) of paragraph 4 of that Schedule, by the substitution for the words and figures "subparagraphs (2), (2A) and (3),", of the words and figures "subparagraphs (2), (2A), (2B) and (3),";

(2) in item (*d*)(iii) of subparagraph (1) of paragraph 10 of that Schedule, by the substitution for the words "exceeds or is equal to", of the word "exceeds,"; and

(3) by the addition immediately after paragraph 12 of that Schedule, of the following new paragraph: -

"13. Tax rate for dividends

Notwithstanding the provisions in other paragraphs of this Schedule, where a person's taxable income includes gains and profits from dividends for the second six months of the year of assessment commencing on April 1, 2022, such gains and profits shall be taxed at the rate of 15%.".

Amendment of the Second Schedule to the principal enactment

19. The Second Schedule to the principal enactment is hereby amended in paragraph 1 of that Schedule as follows:-

(1) by the insertion immediately after subparagraph (1) of that paragraph, of the following new subparagraph:–

"(1A) A person who has entered into an agreement with the Board of Investment of Sri Lanka established under the Board of Investment of Sri Lanka Law, No. 4 of 1978 and invests in Sri Lanka in the expansion of

his existing undertaking, during any year of assessment shall be granted enhanced capital allowances computed in accordance with this paragraph, in addition to the capital allowances computed under the Fourth Schedule.";

(2) in subparagraph (10) of that paragraph–

(*a*) in the definition of the expresssion "Capital allowance expenditure" of that subparagraph, by the substitution for the words "Schedule; and", of the words "Schedule;";

(*b*) by the insertion immediately after the definition of the expression "Capital allowance expenditure" of that subparagraph, of the following new definitions:–

""existing undertaking" means any undertaking conducted by a person, prior to the first date of investment on depreciable assets;

"expansion" does not include–

(*a*) the transfer, purchase or exchange of a depreciable asset of an existing undertaking of a person or an associate of a person; or

(*b*) the purchase of a depreciable asset to replace an existing depreciable asset of an undertaking of a person;

"new undertaking" does not include–

(*a*) the existing undertaking; or

(*b*) an undertaking formed by splitting-up or re-construction of an existing undertaking of a person or an associate of a person;".

Amendment of the Third Schedule to the principal enactment

20. The Third Schedule to the principal enactment is hereby amended as follows:-

(1) in paragraph (*gg*) of that Schedule, by the substitution for the words "an entity fully owned by", of the words "an entity of which more than fifty percent of direct or indirect membership interest is owned by;";

(2) in paragraph (*ooo*) of that Schedule –

(*a*) in subparagraph (ii) of that paragraph, by the substitution for the words and figures "another resident company which is subject to Advance Income Tax under subsection (1A) of section 84A;", of the words "another resident company;";

(*b*) by the addition immediately after subparagraph (ii) of that paragraph, of the following new subparagraph: -

"(iii) to a member who is a non-resident person where such dividend is paid prior to January 1, 2023;";

(3) by the insertion immediately after paragraph (*t*) of that Schedule, of the following new paragraph: -

"(*tt*) amounts derived by a non-resident person from engaging in a project of the Government of Sri Lanka, if such project is approved by the Minister taking into consideration the economic benefits to the country, and is totally funded from foreign grants;";

(4) in paragraph (*w*) of that Schedule-

(*a*) in subparagraph (ii) of that paragraph, by the substitution for the words and figures "on or after April 1, 2021", of the words and figures "on or after April 1, 2021, but prior to April 1, 2023,";

(*b*) in subparagraph (v) of that paragraph, by the substitution for the words and figures "on or after January 1, 2021", of the words and figures "on or after January 1, 2021, but prior to April 1, 2023,";

(*c*) in subparagraph (vi) of that paragraph, by the substitution for the words and figures "on or after April 1, 2021;", of the words and figures "on or after April 1, 2021, but prior to April 1, 2023, for a period of two years of assessment;"; and

(5) by the addition immediately after paragraph (*w*) of that Schedule, of the following new paragraph: -

"(*x*) gains and profits received or derived by an authorised person carrying on a Business of

Strategic Importance as approved under the provisions of the Colombo Port City Economic Commission Act, No. 11 of 2021 and the employment income of an employee employed in terms of section 35 of that Act, up to the extent provided for in that Act for each year of assessment.".

Relief from penalty or interest

21. Where a company has not paid the tax in accordance with the provisions of item (*a*) of subparagraph (4) of paragraph 4 of the First Schedule to the principal enactment as amended by the Inland Revenue (Amendment) Act, No. 45 of 2022, for the period commencing on October 1, 2022 and ending on the date of the commencement of the said Inland Revenue (Amendment) Act, No. 45 of 2022, but pays the amount of tax payable by such company, on or before the thirtieth day of the succeeding month of the date of commencement of this Act, such company shall not be liable to any penalty or interest in terms of the provisions of the principal enactment.

Avoidance of doubt

22. If–

(*a*) an enterprise has entered into an agreement with the Board of Investment of Sri Lanka under section 17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978 on or after April 1, 2018 but prior to October 1, 2022; and

(*b*) such agreement provides for the profits and income of that enterprise or any dividend paid by that enterprise to be fully or partly exempt from income tax or to be taxed at a reduced rate of income tax,

such profits and income of such enterprise or such dividend paid by such enterprise shall continue to be exempt from income tax payable, or shall be liable for income tax at the rate provided for in such agreement, as the case may be.

Replacement of *Table 'A', Table 'B'* and *Table 'C'* of the Inland Revenue (Amendment) Act, No. 45 of 2022

23. *Table 'A', Table 'B'* and *Table 'C'* of the Inland Revenue (Amendment) Act, No. 45 of 2022 are hereby repealed and the following tables are substituted therefor and shall be deemed to have come into operation in accordance with subsections (2), (3), (4) and (5) of section 1 of the Inland Revenue (Amendment) Act, No. 45 of 2022: -

"Table 'A' (section 1)

Column I	*Column II*
Section of this Act	*Section of the principal enactment which is amended*
2	5
4	12
5	14
6	16
11	66
18	87
21	94
22	120
24	133
25	134
26	135
27	136
32(1) and (3)	195
33(1), (2), (3), (4) and (5)	subparagraphs (1A) and (1B) of paragraph 1, paragraphs 3, 4, 5 and 7 of the First Schedule
34	subparagraph (6A) of paragraph 1 of the Second Schedule
35(1)	paragraph (*gg*) of the Third Schedule
37(1)	item (*b*) of subparagraph (4) of paragraph 1 of the Sixth Schedule
38	new section

Table 'B' (section 1)

Column I	*Column II*
Section of this Act	*Section of the principal enactment which is amended*
8(1)	subsection (3) of section 19
33(1)	subparagraph (5) of paragraph 1 of the First Schedule
35 (2), (3), (4) and (5)	paragraphs (*hh*), (*oo*), (*ooo*) and (*rr*) of the Third Schedule
36(2)	paragraph 2 of the Fifth Schedule
37(3) and (4)	paragraphs 8 and 10 of the Sixth Schedule

Table 'C' (section 1)

Column I	*Column II*	*Column III*
Section of this Act	*Section of the principal enactment which is amended*	*Date of operation*
3	10	01.04.2021
7	18	01.04.2021
8	19(4)	01.04.2018
9	46	01.04.2021
10	54	01.04.2018
12	69	01.04.2018

Table 'C' (section 1)

Column I	*Column II*	*Column III*
Section of this Act	*Section of the principal enactment which is amended*	*Date of operation*
13	72	01.04.2018
14	73	01.04.2018
15	83A	01.01.2023
16	84A	01.01.2023
17	85	01.01.2023
19	88	01.01.2023
20	90	01.04.2021
32(2)	195	01.04.2020
33(1) and (7)	subparagraph (1C) of paragraph 1 and paragraph 11 of the First Schedule	01.04.2023
35(6) and (7)	paragraphs (*u*) and (*w*) of the Third Schedule	31.03.2023
36(1)	subparagraph (*e*) of paragraph 1 of the Fifth Schedule	01.04.2021

".

24. 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

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