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Contemporary Tax Issues

CA Sri Lanka

Suresh R. I. Perera

Principal, Tax & Regulatory
KPMG in Sri Lanka



New Tax Legislation

- Income Tax, VAT, NBT, Administrative Provisions, Land Act

Financial Reporting & Taxation

Transfer Pricing

Islamic Finance

Professional Risk



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New Tax legislation

**Principal Act :
Inland Revenue Act No 10
of 2006**

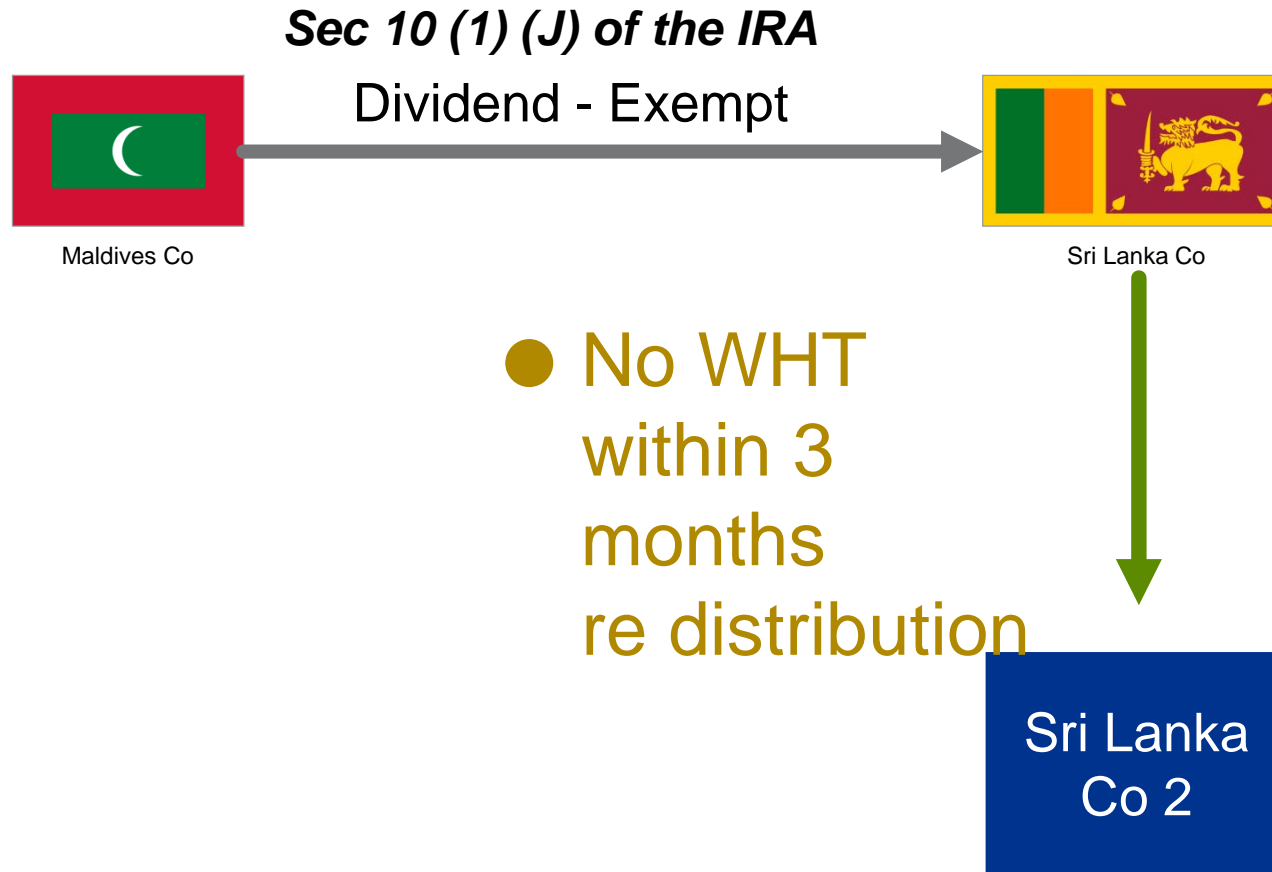
**Amending Act 2014:
Inland Revenue Act
No 8 of 2014**

Sec 10 (1) (I)

“any dividend paid to a shareholder of a company out of such dividend as is referred to in paragraph (j), received by that company, if the first mentioned dividend is paid within three months of the receipt of the second mentioned dividend by that company”.

Sec 10 (1) (j) any dividend paid on or after April 1, 2008, by a company not resident in Sri Lanka to any shareholder resident in Sri Lanka, where the amount of such dividend is remitted to Sri Lanka through a bank;

Foreign Dividends



Sec 10 (1) (I) of the IRA

Sec 9 (a) – Exemption from income tax

Prior to amendment

“the interest accruing to any company, partnership or other body of persons outside Sri Lanka, from any loan granted by that company, partnership or body of persons ~~to the Government of Sri Lanka or to any public corporation or to any Government institution or to any commercial bank for the time being operating in Sri Lanka or to any other undertaking, if such loan is granted after 1/4/2012”~~”

Amendment 2014

“the interest accruing to any company, partnership or other body of persons outside Sri Lanka, from any loan granted by that company, partnership or body of persons **to any person or partnership in Sri Lanka, notwithstanding whether such company, partnership or body of persons has a permanent establishment or any business connection in Sri Lanka,”;**

Sec. 25 (1) (w) IRA

- any royalty or ground rent paid by such person – allowable expense

Sec.32 (5)(a)

- Allows to deduct from Statutory income only ‘annuity or interest’ not deductible under Sec. 25
- Prior to amendment – Royalty and ground rent was also allowed.

BOI Company tax computation

Prior to amendment

SI from BOI Company	Exempt
Less : Royalty	(1,000,000)
Loss to be carry forward	(1,000,000)

No more losses created by way of deducting Royalty/Ground Rent

Head quarters & Regional Head Offices – Exemptions

Sec. 7 (I) IRA Exemption

- the profits and income of any HQ or RHO of an international network, established on or after April 1, 2013, as specified by the CG by Notice published in the Gazette.”

VAT Exempt - item Xliv in Part II schedule

- services by any HQ or RHO of the international network relocated in Sri Lanka, so far as such receipts are in foreign currency received”.

NBT – Excepted Service

- Services provided by any relocated HQ or RHO of any institution in the international network

HQ : Head quarters

RHO – Regional head office

Section 16 D – Introducing cut off

Activity	Investment (USD Mn)
Fabric	5
Pharmaceutical	10
Milk Powder	30
Cement	50

5 yr Tax Holiday

Investment in FA

In specified manufacturing industries

New undertaking established after 1. 4. 2012 should not be formed via a splitting up, reconstruction or acquisition of any business which was previously in existence.

16D
IRA

**Undertaking established prior to-
1.04.2015**

Section 17 A – Law prior to amendment

Investment (Rs.mn)	T/H
> 300 – 500	6
>500 - 700	7
>700 - 1000	8
>1000 - 1500	9
>1500 - 2500	10
> 2500	12

6 - 12 yr Tax Holiday

Investment in FA from Rs 300 – 2500 Mn

Commence commercial operation after 1. 4. 2011

In specified activities

should not be formed via a splitting up, reconstruction or acquisition of any business which was previously in existence.

17A
IRA

Sec 17 A Qualified Activities

Manufacturing of certain products

cultivation of food crops or industrial crops;

sporting services (e.g. motor racing or golf course);

animal husbandry in relation to dairy, poultry, swine, goat etc;

Horticulture

Software Development and IT

Business or knowledge process outsourcing

Sec 17 A Qualified Activities

provision of educational services; or

construction of hospitals

Infrastructure projects

development of water services;

repair of aircrafts or maritime vessels or ship breaking

power generation using renewable resources

establishment of industrial estates, special economic zones or knowledge cities;

tourism or tourism related projects;

Section 17 A – Introduction of Cut off

Investment (Rs.mn)	T/H
> 300 – 500	6
>500 - 700	7
>700 - 1000	8
>1000 - 1500	9
>1500 - 2500	10
> 2500	12

6 - 12 yr Tax Holiday

Investment in FA from Rs 300 – 2500 Mn

Commence commercial operation after 1. 4. 2011

Investment in specified activities

should not be formed via a splitting up, reconstruction or acquisition of any business which was previously in existence.

17A
IRA

Cutoff date :
Investments in FA prior to- 1.04.2015
Commercial operation prior to 1.04.2016

Section 34 (2) (S) – Cut off date pre poned

Prior to Amendment
- Investment between
1/04/2011 – 1/4/2015

25% QP releif

Investment in FA > Rs 50 Mn

Cut off date preponed to 1.04.2014

For only high tech P&M acquired for

- Energy Efficiency
- Introducing / Upgrading technology
- power generation using renewable energy source

The cut off would remain as 1/4/2015

S34(2)
(s)

- **50% tax rate for new listings extended by 3 yrs i.e 31/3/2017**
- **Rate applicable**
 - **For the Y/A of listing**
 - **Immediate two Y/A**
- **Company to maintain 20% holding of shares by general public**

59G. (1) The tax rate applicable on the profits and income earned by a bank for any year of assessment commencing on or after April 1, 2014, on any loan granted to any individual, who is a professional, for the purpose of constructing a house or purchasing a house or a unit of a residential apartment complex, by such individual alone or together with any other individual, shall be reduced by fifty per centum.



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Concessions to Professional

Maximum IT rate on employment
income - 16%

(Professionals - for exercise of his
duties as a professional)

Tax Slabs – Employment Income

Taxable Income (Rs)	Tax on Lower Amount (Rs)	Rate on excess of lower amount (%)	For Professionals in Employment
0 – 500,000	NIL	4%	4%
500,000 – 1,000,000	20,000	8%	8%
1,000,000 – 1,500,000	60,000	12%	12%
1,500,000 – 2,000,000	120,000	16%	16%
2,000,000 - 3,000,000	200,000	20%	16%
> 3,000,000	400,000	24%	16%
			16%

Professionals

Member of ICASL, ACCA or CIMA

Chartered Engineer, being a member of the Institute of Chartered Engineering

Chartered Architect, being a member of a Sri Lanka Institute of Architecture

Doctor registered under the Medical Ordinance (Chapter 105)

Attorney at Law

Software Engineer

Pilot licensed under the Air Navigation Act (Chapter 365)

Navigation Officer

Researcher or Senior Academic recognized as an accredited professional

Sec. 34 (w) IRA: Carry forward 600k Qualifying Payment for professionals

w) any expenditure incurred **not exceeding six hundred thousand rupees** for any year of assessment commencing on or after **April 1, 2014** on the repayment of the **capital of a loan obtained from any bank licensed under the Banking Act, No. 30 of 1988 or any finance company licensed under the Finance Business Act, No. 42 of 2011, of which the proceeds are utilized to construct a house or to purchase a house or a unit of a residential**

apartment complex, by an individual who is a professional and **who furnishes a return under section 106**, whether such individual obtained such loan alone or together with any other individual:

Provided that, if such loan is obtained together with another individual or obtained for a co-owned property, such deduction shall not exceed the amount of expenditure attributable to such individual who obtained such loan.

For the purpose of this section, “professional” shall have the same meaning as given for that expression in section 40C.

S.59 F – IRA Profits from provision of professional services (Professionals in Practice)

59F. (1) Where the taxable income of any individual being a citizen of Sri Lanka, for any year of assessment commencing on or after April 1, 2014, includes any profits and income from providing professional services as a professional, such part of the taxable income shall, notwithstanding anything to the contrary in any other provisions of this Act, be chargeable with income tax at the appropriate rate specified in the Fifth Schedule to this Act.

(2) For the purpose of this section, “professional” shall have the same meaning as given for that expression in section 40C.

Rate - fifth schedule



First 500k	- 4%
Next 500k	- 8%
Next Rs 24 Mn	- 12%
Next Rs 10 Mn	- 14%
Balance	- 16%



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Administrative Provisions

Time bar on Assessments – Sec 163 (5)

No assessment to any person/partnership who has made a return of income on or before the 30th of November

Commencement of Y/A on or after 01.04.2013 - after the expiry of a period of eighteen months from the 30th of November

Provided, that nothing in this subsection shall apply to the assessment of income tax payable by any person in respect of any year of assessment, consequent to-

- (i) the receipt by such person of any arrears relating to the profits from employment of that person for that year of assessment; or
- (ii) **any adjustment made in line with the adoption of the Sri Lanka Financial Reporting Standards** for the year of assessment in which such adoption was made:

A Unique Key Number will be introduced with the proposed Revenue Administration Management Information System (RAMIS) to tax payers to link information with external interfaces and IRD

'Approved Accountant'

Prior to 01.04.2014

- Member of ICASL
- Approved by CGIR for the purpose of the definition of authorized representative
- Any individual registered as an auditor under the Companies (Auditors) Regulations and approved by CGIR
- An auditor authorized to carry out audits of cooperative societies where the turnover of such society for the year does not exceed Rs. 50 Mn

On or after 01.04.2014

“an accountant who is a member of the Institute of Chartered Accountant of Sri Lanka”

Section 107(3)(a) of IRA



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Value Added Tax Principal Act – No 14 of 2002 Amendment 2014 – No 7 of 2014

Part II of the VAT Act (Sec 8 VAT Act)

Exempt – Import & Supply of

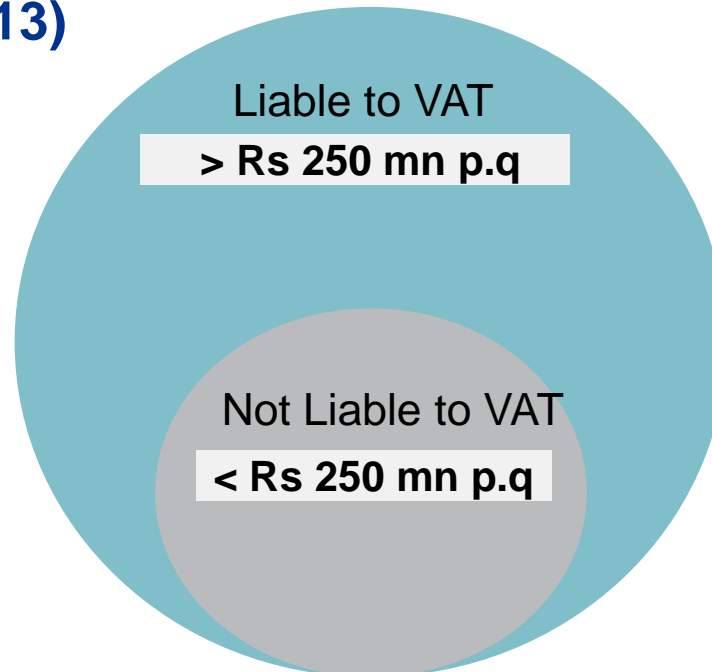
- Gully bowsers, semi-trailers for road tractors, machinery, equipment used for garbage disposal activities or garbage trucks.
- Ties and bows and designer pens
- Frozen bait, fish hooks/rods/reels, fishing tackle and marine population engines identified under the HS codes.

Exempt – Supply of

- Desiccated coconut, rubber, latex, tea including green leaf, rice, rice flour, bread, eggs, liquid milk so far as such products are manufactured locally.
- Machinery or equipment for the tea or rubber industry or agricultural tractors or road tractors for semi-trailers, so far as such products are manufactured locally
- Imported unprocessed timber logs, ships, rattans, or any article subject to the Special Commodity Levy under the Special Commodity Levy Act, No.48 of 2007 subject to the condition that such goods are sold by the importer himself without any processing except adaptation for sale.

VAT on wholesale and retail

- Introduced VAT on this industry in 2013
- With effect from Jan 1, 2014
 - Threshold of quarterly supplies for chargeability is Rs. 250 mn (reduced from 500 mn, 2013)





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National Building Tax Principle Act – No 9 of 2009

Amendment 2014 – No 10 of 2014

Excepted Services

“(i) the business of Banking or Finance for any period ended on or before December 31, 2013;

“(vi) the provision of finance leasing facilities in respect of any movable property;”;

“(xxvi) services provided to or within any port or airport in relation to international transportation;”;

“(xxviii) telecommunication services, in respect of which the telecommunication levy has been paid under the Telecommunication Levy Act, No. 21 of 2011;

“(xxxvii) the services provided by any relocated international headquarters or regional head office of any institution in the international network, prescribed for the purpose of Inland Revenue Act, for payment in foreign currency.”.

“(xiii) pharmaceuticals identified under the Harmonized of Commodity Description and Coding Numbers for Custom purposes;”;

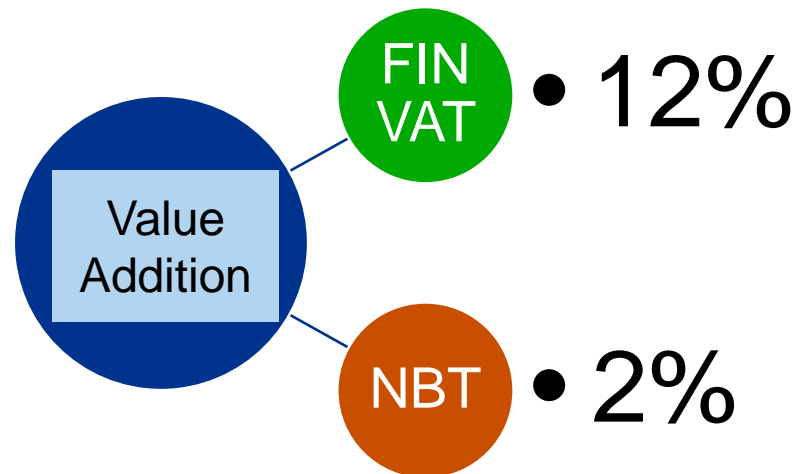
(xix) locally manufactured tractors at the point of sale;”;

NBT - General

- 2% on turnover

NBT on Banks and Financial Services

- 2% on value addition





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Financial Consolidation

Amendment relating to Financial Consolidation

Sec 34 (2) (x)
of
Amending
IRA Act No 8
of 2014

“any expenditure incurred by any bank or any finance company licensed under the Finance Business Act, No 42 of 2011, by way of cost of acquisition or merger of any other bank or any other finance company, where such costs is ascertained by considering all the facts on case by case basis in accordance with the guidelines issued by the Central Bank of Sri Lanka for that purpose, and such expenditure is not deductible under Section 25”

Section 22 (13) VAT Act

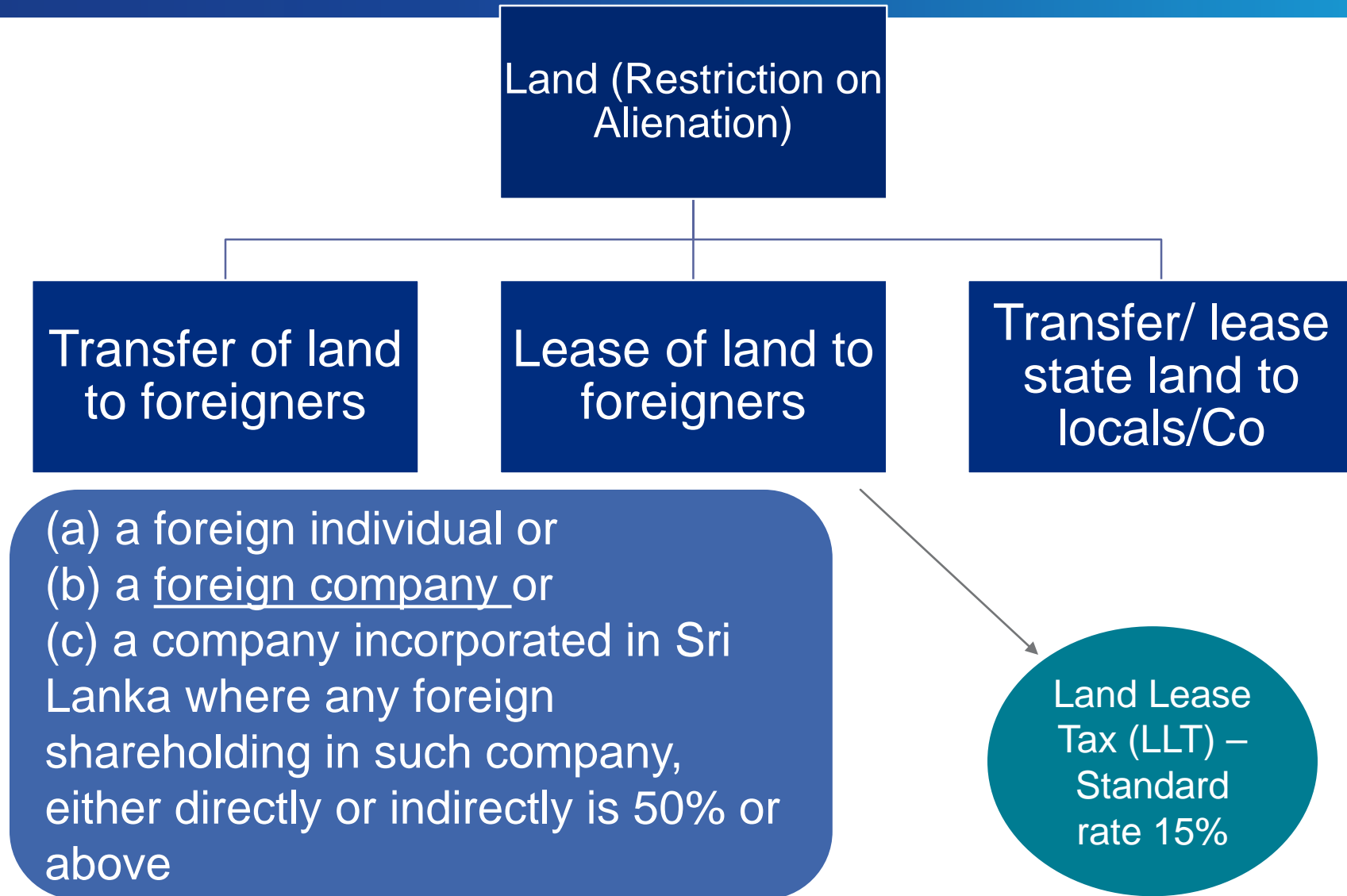
“any unabsorbed input credit of any bank established under the Banking Act no 30 of 1988 or finance company licensed under the Finance Business Act, No 42 of 2011, relating to the liable business of such bank or finance company as at the date of acquisition or merger of such bank or finance company, as the case maybe, shall be allowed to be claimed subject to the provisions of this Act, and in accordance with the guidelines issued by the Central Bank for this purpose”

Central Bank Guidelines

- Formula to determine the cost of acquisition or merger
- Rules to claim unabsorbed input VAT credit

LAND (RESTRICTIONS ON ALIENATION) ACT, No. 38 OF 2014

Land (Restriction on Alienation) Act



Exemptions

Transfer of land

Lease of land

To a Diplomatic Mission

Condominium Unit situated on or above the fourth floor

To a dual citizen of Sri Lanka

A specified foreign company which requires land to locate or relocate its global or regional operations or to set up a branch office.

A specified Strategic Development Project

By intestacy, gift or testamentary disposition to a next of kin (who is a foreigner)

Land situated within the Bonded Area / Free Port

To any bank/finance institution, where any foreign shareholding is 50% or above

Direct investments in foreign currency before 1 January 2013

Less than 50% foreign s/h of any company, from 1 Jan 2013 to the date of the Act

Land Lease Tax

7.5%

- Land lease to;
- Any company in active operation for a consecutive period of more than 10 years
- To a subsidiary of a holding company (Holding Co is in active operation for more than 10 Years)
- Condominium Unit on or above the 4th floor (Period of lease < 35 Years)
- Condominium Unit situated below the 4th floor
- Land situated within; A Licensed Zone, A Tourist Development Area, An Industrial Estate & area declared by the Minister
- company with significant investments, identified by the Ministers to ensure a level playing field amongst competitors.

15%

- Other leases not covered above

Discretionary Exemptions – S. 3(2), (3) & 7(2), (3)

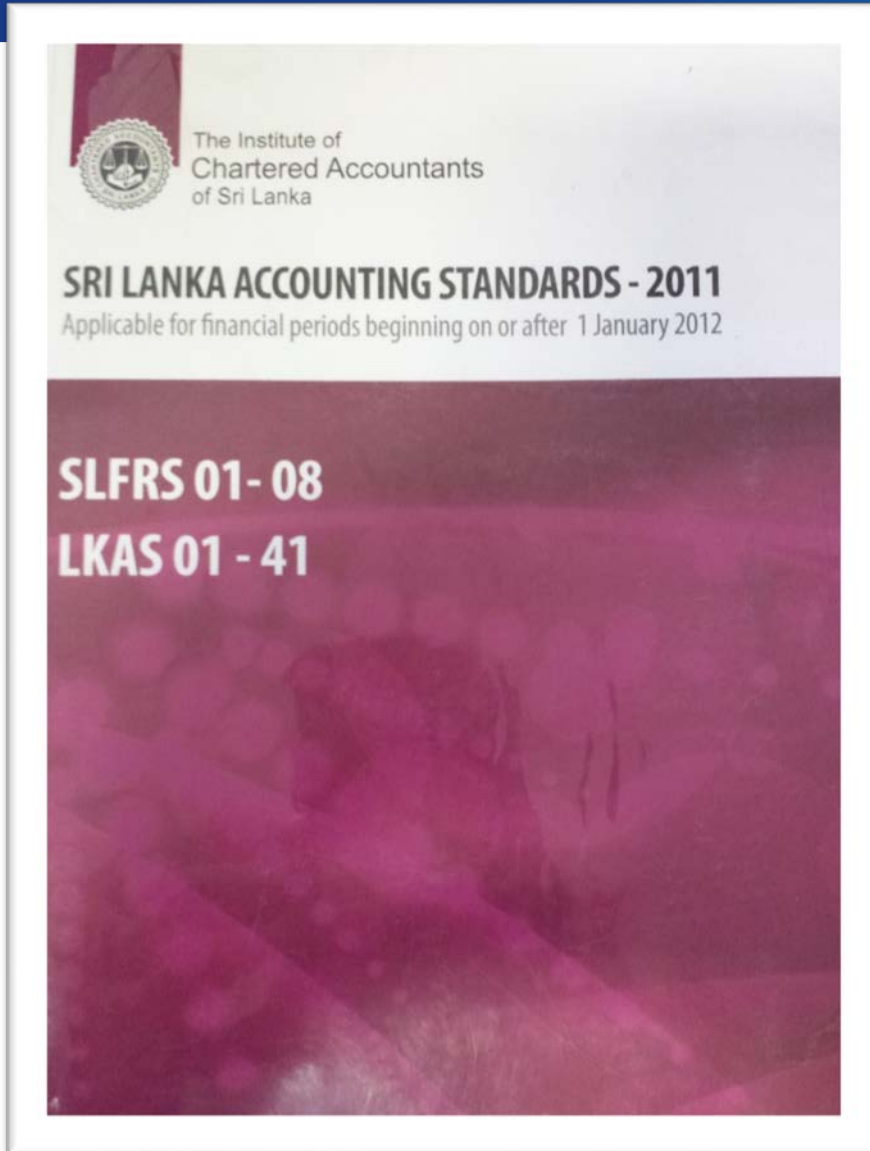
Section 03

(2) The Minister may in consultation with the Minister to whom the subject of lands has been assigned and with the prior written approval of the Cabinet of Ministers, by Order published in the *Gazette*, exempt **any foreign entity** engaged in the **banking, financial, insurance, maritime, aviation, advanced technology or infrastructure development project identified as a Strategic Development Project**, in terms of the provisions of the Strategic Development Projects Act, No. 14 of 2008, from the application of the provisions of section 2.

(3) The Minister may in consultation with the Minister to whom the subject of Lands has been assigned and with the prior written approval of the Cabinet of Ministers, by Order published in the *Gazette*, exempt **any foreign company** engaged in **international commercial operations**, from the application of the provisions of section 2, **where the land is purchased to locate or relocate its global or regional operations or to set up a branch office**.

Financial Reporting & Taxation

Introduction to SLFRS – Effective date from



**Mandatory
requirement to
follow SLFRS w.e.f
01 January 2012**

- The IRD issued a draft guideline suggesting tax treatment consequent to the adoption of SLFRS

The IRD, via

- [Gazette No. 1857/8](#) issued on 9th April 2014, prescribed regulations specifying the tax treatment consequent to the adoption of SLFRS.
- [Press notice](#) in the Daily News

The Gazette of the Democratic Socialist Republic of Sri Lanka

EXTRAORDINARY

අංක 1857/8 - 2014 අප්‍රේල් මස 09 වැනි බදාදා - 2014.04.09

No. 1857/8 - WEDNESDAY, APRIL 09, 2014

(Published by Authority)

PART I : SECTION (I) — GENERAL

S.212 (2) (c)

Government Notifications

INLAND REVENUE ACT, NO. 10 OF 2006

Regulations under Section 212

REGULATIONS made under Section 212 (2)(c) of the Inland Revenue Act, No. 10 of 2006, for the purpose of that Act.

MAHINDA RAJAPAKSA,
Minister of Finance and Planning.

Section 212 (2) – Inland Revenue Act

2) In particular and without prejudice to the generality of the powers conferred by subsection (1), the Minister may make regulations in respect of the following matters:—

- (a) the methods by which an estimate of the income liable to tax may be made, in cases where the amount of such income cannot be definitely ascertained;
- (b) the procedure to be followed in respect of applications for refunds of any tax paid under this Act and for any allowance or deduction which may be claimed under this Act;
- (c) any matter which is required or authorized by this Act to be prescribed
- (d) penalties for the contravention of any regulations made under this section or for failure to comply therewith, such penalty not exceeding in each case, a sum of five hundred rupees;
- (e) the manner of computation of profits and income whenever the Financial Accounting Standards applicable in Sri Lanka are changed.

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Regulations under Section 212

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MAHINDA RAJAPAKSA,
 Minister of Finance and Planning.

Ministry of Finance and Planning,
 Colombo 01,
 31st March, 2014.

REGULATIONS

In complying with the respective provisions of the Inland Revenue Act, as cosequential to the adoption of Sri Lanka Accounting Standards which consist of Sri Lanka Financial Reporting Standards (SLFRS)/Lanka Accounting Standards (LKAS) in the preparation of financial statements, in relation to any year of assessment commencing on or after April 1, 2012, the following adjustments shall be made in the ascertainment of profits or income for tax purposes, and the information required shall be provided:

No.	Accounting Standard Adopted	Adjustments/information required to be made or provided, for tax purposes
1.0	FIRST TIME ADOPTION OF SRI-LANKA FINANCIAL REPORTING STANDARDS (SLFRS 1)	1.1 Details of recognitions, de-recognitions, reclassifications and reconciliations of assets shall be furnished together with all adjustments made to opening retained earnings. 1.2 The expenditure (other than capital expenditure) incurred in relation to the adoption of Sri Lanka Financial Reporting Standards (SLFRS) as first time adopters shall, for the purpose of deduction, be spread over a period of 3 years in equal instalments (i.e. the year of assessment in which the expenditure incurred and the next 2 year of assessments).



This Gazette Extraordinary can be downloaded from www.documents.gov.lk

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2A I කෙටපට (I) කෙටපට - ශ්‍රී ලංකා ප්‍රජාතාන්ත්‍රික සමාජවාදී ජනරජයේ ගැසට් පත්‍රය - 2014.04.09
 PART I : Sec. (I) - GAZETTE EXTRAORDINARY OF THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA - 09/04/2014

No.	Accounting Standard Adopted	Adjustments/information required to be made or provided, for tax purposes
		1.3 For determining any additional liability or excess payment, upon the transition, adjustments in relation to restatement of assets and liabilities shall be taken in to account except in relation to any capital nature transaction such as an adjustment to "available for sale assets" which shall be at the time of disposal. The additional tax or refund position of the first year of adoption should be furnished. 1.4 The adjustment arising upon transition will be a one-off tax point. (a) If the adjustment results in an additional tax, settlement of such liability shall be made in the year of assessment in which the adjustment was made and in the period of two year of assessments immediately succeeding, in equal instalments; and (b) If the adjustment results in an excess payment, no refund shall be made, but allowed to be set off against income tax liability in the year of assessment in which the adjustment was made and in the period of two year of assessments immediately succeeding. 1.5 Where a dividend is paid out of retained earnings or profits on the conversion, such dividend shall be liable to tax under the respective existing provisions.
2.0	INVENTORIES (LKAS 2)	2.1 Any inventory (e.g. returnable packaging materials) re-classified in line with Sri Lanka Accounting Standards (LKAS) as non-current asset shall continue to be treated as inventory in line with the existing tax practice. 2.2 When inventories are purchased with deferred settlement terms, the finance cost element shall not be separated from the purchase figure for tax purpose. The whole invoice value shall be considered for tax purposes while the imputed interest element, if any, charged to statement of income is disallowed.
3.0	CONSTRUCTION CONTRACTS (LKAS 11)	3.1 Only the cost attributable to certified work done shall be allowed for tax purpose. 3.2 Other receipts such as incentive payments would also be taxed accordingly. 3.3 The expected loss recognized as an expense shall be disallowed until the loss is actually incurred. 3.4 Any interest income earned using advance payment received shall be treated as separate source of income.

Tax implication on SLFRS adjustment

- **PPE**
- **Lease**
- **Revenue**
- **Employment Benefit**
- **Financial Instruments**
- **Impairment**

Income Tax Computation

PBIT	XXX
Less: Non Business Income	(XXX)
Tax allowable and disallowable Expenses (S.25 & S.26)	(XXX)
Statutory Income from Trade, Business, Profession & Vocation	XXX
Add: Income from other sources	XXX
Total Statutory Income	XXX
Less: Deductions Under S.32	(XXX)
Assessable Income	XXX
Less: Qualifying Payments S.34	(XXX)
Taxable Income	XXX

Transfer Pricing

Arm's length principle

“Any profits and income arising, derived or accruing from, or any loss incurred in any transaction entered into between two associated undertakings shall be ascertained having regard to the arm's length price.”

“Where it appears to an Assessor or Assistant Commissioner that the profits and income or the loss, has not been as ascertained having regard to the arm's length price, he may refer the computation of the arm's length price in relation to such **international transaction to a Transfer Pricing Officer.”**

“arm's length price” means a price which is applied in uncontrolled conditions in a transaction between persons, other than associated undertakings.

- Sec. 104 of Inland Revenue Act No.10 of 2006

Arm's length principle

“Any profits and income arising, derived or accruing from, or any loss incurred in any transaction, **other than transactions referred to in subsection (1) of section 104**, entered into between two associated undertakings shall be ascertained having regard to the arm's length price.”

- **Sec. 104 (A) of Inland Revenue Act No.10 of 2006**

“arm’s length price” means a price which is applied in uncontrolled conditions in a transaction between persons, other than associated undertakings;

Islamic Finance

(1) The profits and income arising from any Islamic financial transaction relating to any Islamic financial instrument shall be treated for tax purposes under the provisions of the Act, as hereinafter provided in this section.

(2) The Profits and income arising to any person or partnership out of any Islamic financial transaction shall, where such transaction is similar or equivalent in substance, to any conventional financial transaction under the provisions of the Act, be subject to tax in similar manner as such conventional financial transaction is taxed under the Act.

Sec 105 A - IRA

Profits and income arising from Islamic financial transactions

(3) The Commissioner-General of Inland Revenue shall in order to determine the extent of liability to tax of any particular Islamic financial transaction, issue from time to time, such rules and guidelines as may be required for the purpose of —

(a) identifying the circumstances which would amount to an Islamic financial transaction; and

(b) ascertaining the profit and income arising out of any Islamic financial transaction.

Sec 105 A - IRA

The value of supplies from any Islamic Financial transactions to be chargeable to tax

• *The value of supplies from any Islamic Financial transactions to be chargeable to tax in terms of the provisions of this Act*

• *The Commissioner General of Inland Revenue shall in order to determine the extent of liability to tax of any particular Islamic financial transaction issue from time to time. Such rules and guidelines as may be required for the purpose of –*

a. Identifying the circumstances which would amount to an Islamic Financial transaction ; and

b. Ascertaining the value of supplies arising out of any Islamic financial transaction.

Turnover from Islamic financial transaction to be chargeable to tax.

• *Turnover from Islamic financial transaction to be chargeable to tax in terms of the provisions of this Act*

• *The Commissioner General of Inland Revenue shall in order to determine the extent of liability to tax of any particular Islamic financial transaction issue from time to time. Such rules and guidelines as may be required for the purpose of –*

a. Identifying the circumstances which would amount to an Islamic Financial transaction ; and

b. Ascertaining the profits and income arising out of any Islamic financial transaction

Professional Risk

Any auditor or tax practitioner who in the discharge of his professional duty, **deliberately misinterprets any provisions** of this Act or any other Act administered by the Commissioner- General, or regulation, rule or order made thereunder under **shall be guilty of an offence** under this Act and on conviction after summary trial before a Magistrate, **be liable to a fine not exceeding rupees fifty thousand or to imprisonment of either description for a term not exceeding six months or to both such fine and imprisonment.**

Penal Provision – Section 204 of IRA

(1) Any person who—

- (a) omits from a return made or furnished under this Act any income, which he should have included in such return;
- (b) makes any false statement or entry in any return made or furnished under this Act;
- (c) makes a false statement in connection with a claim for a deduction or allowance under Chapter VII;
- (d) signs any statement or return made or furnished under this Act without reasonable grounds for believing the same to be true;
- (e) gives any false answer, whether verbally or in writing, to any question or request for information asked or made in accordance with the provisions of this Act;
- (f) prepares or maintains or authorises the preparation or maintenance, of any false books of account or other records, or falsifies or authorises the falsification of any books of account or records; or
- (g) makes use of any fraud, art or contrivance whatsoever, or authorizes the use of any such fraud, art or contrivance

Contd

and thereby evades or **attempts to evade income tax, assists any other person to evade or to attempt to evade such tax**, shall be guilty of an offence under this Act, and shall be liable on conviction after summary trial before a Magistrate, to fine consisting of—

(i) a sum equal to the amount of tax so evaded or attempted to be evaded for which he, or as the case may be, the other person so assisted, is liable under this Act, for the year of assessment in respect of or during which the offence was committed; and

(ii) a sum not **exceeding ten thousand rupees** or to imprisonment of either description for a term **not exceeding six months**,

or to both such fine and imprisonment.

Contd

Penal Provision – Section 204 of IRA

(2) Every person who, being an employer for the purposes of Chapter XIV—

(a) **omits from a declaration** made under paragraph (a) or paragraph (d) or paragraph (e) of section 120 any remuneration or omits or understates in such declaration the amount of income tax deducted from such remuneration; or

(b) gives a **false certificate** of income tax deduction under paragraph (b) or paragraph (c) of section 120,

and thereby evades or attempts to evade income tax or assists any other person to evade or to attempt to evade such tax, shall be guilty of an offence under this Act, and shall be liable on conviction after summary trial before a Magistrate, to **fine not exceeding ten thousand rupees or to imprisonment of either description for a term not exceeding six months or to both such fine and imprisonment.**

(3) The Commissioner-General may **compound any offence under this section and may before judgement stay or compound any proceedings** thereunder, subject to the recovery of an amount that is not less than one third of the fine that may be imposed under sub paragraphs (i) and (ii) of subsection (1). Such fine recovered shall be credited to the Consolidated Fund.



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Thank you

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