



KPMG Sri Lanka

Tax News Flash

April 2020

TAX UPDATE

For clients of KPMG in Sri Lanka

The Department of Inland Revenue (“DIR”) has released the attached notice (PN/APIT/2020-01) dated 20th April 2020, providing guidance to employers and employees on the deduction of Advance Personal Income Tax (“APIT”) on gains and profits from Employment.

This notice follows the previous announcements made by the DIR in relation to abolishing the requirement for deduction of Withholding Tax by employers on employment income of resident employees under the Pay-As-You-Earn (“PAYE”) Scheme with effect from 1st January 2020, and the introduction of the optional APIT mechanism with effect from 1st April 2020, which we have notified in our previous tax alerts.

This notice intimates that, in respect of remuneration paid to resident employees, employers are required to deduct APIT and remit the same to DIR with the consent of the employee.

Furthermore, in respect of remuneration paid to a non-resident employee, regardless of obtaining consent from such employee, it is mandatory for the employer to deduct APIT and remit the same to DIR. It was previously understood that the withholding tax rate on remuneration of non-resident employees was 14%. However, the notice and the tax tables published for the deduction of APIT intimates that tax should be deducted from the remuneration of non-resident employees based on the progressive tax rates of 6% to 18%.

For purposes of deduction of tax under the APIT mechanism, the DIR has published guidelines and tax tables, which can be accessed via the below link:

http://www.ird.gov.lk/en/publications/sitepages/apit_tax_tables.aspx?menuid=1503



The notice further intimates that the tax deducted shall not be considered as a final tax, and hence, employees are required to register for income tax and file income tax return from the year of assessment 2019/2020. For this purpose, employees could apply for and obtain a TIN using online tax registration facility available in the DIR's portal.

You may click on the link below to access the notice published by the DIR:

http://www.ird.gov.lk/en/Lists/Latest%20News%20%20Notices/Attachments/238/APIT20042020_E.pdf

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INLAND REVENUE DEPARTMENT

Notice to the Employers and Employees

Deduction of Advance Personal Income Tax (APIT) on Gains and Profits from Employment

As you are already informed by the Inland Revenue Department (IRD) by its notice under the reference No. PN/IT/2020 - 03 (Revised) dated 08.04.2020 published in line with the instructions issued by the Ministry of Finance, subject to formal amendments to the Inland Revenue Act, No. 24 of 2017 (IRA), mandatory requirement under Section 83 of the IRA for deduction of Withholding Tax (WHT) on employment income under Pay-As-You-Earn (PAYE) Scheme by the employer on the remuneration of a resident employee is removed with effect from 01.01.2020 and deduction of **Advance Personal Income Tax (APIT) is replaced in lieu of PAYE tax with effect from 01.04.2020 on optional basis.**

Accordingly, the employers are required to remit the APIT by deducting (or as per any alternative arrangement) from the remuneration of respective employees, if such employees are resident in terms of the provisions of the Inland Revenue Act No. 24 of 2017, with the consent of respective employees. If such employees are **non-residents**, regardless of their consent, due tax must be deducted as per the tables provided in the guideline. Tax rate on the income of non-resident individual is applicable in progressive rate subject to maximum of 18% as applicable to resident individuals. Further, non-residents who are citizens in Sri Lanka are entitled to get tax “relief” Rs. 3 Mn for a year of assessment.

The deducted tax shall not be considered as final and the employees are required to file tax return individually irrespective of the APIT deduction, from the year of assessment 2019/2020 by registering in the IRD to obtain a Taxpayer Identification No (TIN). Tax registration could be done via online also.

The APIT Guideline could be downloaded from the web portal of the IRD.

For making tax payments to the IRD, please refer to the notice under the reference No. PN/PMT/2020-1 dated 08.04.2020 published in the IRD web portal.

Commissioner General of Inland Revenue



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