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உள்ளநாட்டு இறைவரித் திணைக்களம்
DEPARTMENT OF INLAND REVENUE

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Circular No: SEC/2018/06

18.04.2018

Circular to Withholding Agents - Withholding of Tax from Payments Made under Section 84 and 85

This Circular sets out explanatory notes and guideline to facilitate **withholding agent**, on the application of the provisions of section 84 and 85 of the Inland Revenue Act, No. 24 of 2017 (the Act) with effect from April 1, 2018 and withdrawn Circular No: SEC/2018/05 issued on 29.03.2018 the above subject.

Part I – Deduction of Withholding Tax under Section 84.

1.1 To whom this Circular is Applicable.

1.1.1. WHT should be deducted from any payment or allocation which has a source in Sri Lanka and which is made by a person (WHT Agent) to any Resident or Non-Resident person;

i. where the payment being-

- dividend, interest, discount, charge, natural resource payment, rent, royalty, premium or retirement payment or
- amounts as winning from a lottery, reward, betting or gambling, and

ii. where the allocation being-

- any partner's relevant share of any partnership income of the partnership.

1.1.2. WHT should be deducted from any sale price payable to the seller of any gems sold at an auction conducted by the National Gem and Jewellery Authority.

1.2 Time of Deduction.

Tax should be deducted at the time the payment is made to any person, credited to a bank account on behalf of recipient or allocation of partner's relevant share of partnership income.

1.3 Non-Deduction of withholding Tax.

The tax deduction required under section 84 is not applicable to the following payments.

- (a) payments subject to withholding under section 83 (employment income).
- (b) payments made by individuals, unless made in conducting a business.
- (c) Interest paid to any financial institution on the ordinary loans and advances provided by it.
- (d) interest or discount paid to any person on Security or Treasury Bond or Treasury Bill.
- (e) payments or allocations that are exempt amounts under section 9 of the Act; (The withholding agent is required to seek from the withholdee a certificate issued by the Commissioner General of Inland Revenue confirming that such withholdee is qualified for this exemption).

1.4 Rates of Deduction.

Every withholding agent should deduct income tax on the above referred payments as follows.

(a) payments mentioned in para 1.1.1 (i) –

- (i) in the case of interest paid to a senior citizen - 5% on the amount exceeds Rs. 1,500,000/= .
- (ii) in other cases where the interest or discount paid to a person - 5%;
- (iii) in the case of rent paid to a resident person – 10%; and
- (iv) in all other cases - 14%.*

(b) allocations mentioned in para 1.1.1 (ii) - 8%.

(c) payments mentioned in para 1.1.2 – 2.5%.

*When the payment is made to a Non-Resident person the tax rate specified in the relevant Double Taxation Avoidance Agreement should be applied, if the rate mentioned here is greater than the rate specified in the agreement. For such cases a confirmation should be obtained from the International Tax Branch of the Department of Inland Revenue.

Part II – Deduction of Withholding Tax under Section 85

2.1 To whom this Circular is Applicable.

2.1.1. WHT should be deducted from any service fee or any contract payment which has a source in Sri Lanka and which is made by a person (WHT agent) to **any Resident Individual** who is not an employee of the payer where the payment being

- a) for teaching, lecturing, examining, invigilating or supervising an examination;

- b) as a commission or brokerage to a resident insurance, sales or canvassing agent;
- c) as an endorsement fee;
- d) in relation to the supply of any article on a contract basis through tender or quotation;
- e) for any service provided in the capacity of independent service providers such as doctors, engineers, accountants, lawyers, software developers, researchers, academics, or any other similar service; **
- f) for any service of construction work, security service, janitorial service, consultation work of any kind, organizing of events, catering, designers, dress makers, tour guidance, entertainment, agency functions or any similar services or connected work where such services are provided under an agreement or otherwise; **
- g) for any management service; **
- h) for any type of vocational services provided as an independent service provider. **

** Gazette notification is due to be published by the Honorable Minister of Finance.

2.1.2. WHT should be deducted from payment of any service fee or insurance premium with a source in Sri Lanka which is made by a person to a Non-Resident person;

2.1.3. WHT should be deducted from payment made by a person to a Non-Resident person who conducts transport business as specified in sub section 73(1)(h) or telecommunication business as specified in subsection 73(1)(i).

2.2 Time of Deduction.

Tax should be deducted at the time the service fee or contract payment is paid to any person.

2.3 Non-Deduction of withholding Tax.

The tax deduction required under section 85 is not applicable to the following payments.

- (a) payments subject to withholding under section 83 (employment income);
- (b) payments made by individuals, unless made in conducting a business;
- (c) payments that are exempt amounts; ***
- (d) payments of service fee in respect of which ESC is payable by the withholdee.***

***The withholding agent is required to seek from the withholdee a certificate issued by the Commissioner General of Inland Revenue confirming that such withholdee is qualified for the exemption under para 2.3 (c) or 2.3 (d). Such certificate can be obtained from the Business Consultation Unit or any Regional Office by making a request.

2.4 Rates of Deduction.

Every withholding agent should deduct income tax on the above referred payments as follows:

(i) payments mentioned in para 2.1.1 – 5% on amounts exceeding Rs. 50,000 per month;

(ii) payments mentioned in para 2.1.2 – 14%; ****

(iii) payment to a non-resident person as mentioned in para 2.1.3 – 2%. **

****The tax rate specified in the relevant Double Taxation Avoidance Agreement should be applied, if the rate mentioned here is greater than the rate specified in the agreement. For such cases a confirmation should be obtained from the International Tax Branch of the Department of Inland Revenue.

Part III – Registration, Payment, Certificate of Deduction and Returns.

3.1 Registration.

All WHT agents are required to obtain a registration number from the Tax Type Registration Unit of Inland Revenue Department for the purpose of deducting the WHT from any withholder. Any WHT agent who has not been assigned a Tax Payer Identification Number so far should get TIN Number first from the Primary Registration Unit or relevant Regional Office. Instructions regarding the registration is available in the web Portal of Department of Inland Revenue.

3.2 Calculation of WHT.

The withholding tax deduction should be made on the gross amount of the invoice value (inclusive of all taxes other than VAT).

3.3 Payment of tax withheld or treated as withheld.

Any tax that has been with held during each calendar month by the withholding agent, must be paid to the Commissioner-General (to the People’s Bank Account No. 014-1002-6-9026620 by using the paying in slip issued by the IRD) within 15 days from the end the month. Any withholding agent who fails to withhold tax in accordance with this Division must nevertheless pay the tax that should have been withheld in the same manner and at the same time as tax that is withheld.

3.4 Certificate of Deduction.

The withholding agent who deducts withholding tax is required to issue a certificate of tax deduction to every withholder in the relevant format specified in **Annexure 1(a) or 1(b) or 1(c)**. The withholding certificate shall cover a calendar month and be served within 30 days from the end of the month.

Where the certificate is computer generated, it should contain the phrase "This is a computer-generated certificate. Therefore, no signature is required"

3.5 Submission of Returns and Schedules.

(i) **Returns –**

Every withholding agent should file an annual statement specified by the Commissioner General of Inland Revenue, for each year of assessment within 30 days from the end of year (on or before 30th April) Return should be furnished by all registered withholding agents even in the instances where no any tax is payable.

(ii) **Schedules –**

Schedules prepared in the relevant formats as specified in the Annexure 2(a) or 2(b) or 2(c) for the payments on which WHT deducted, and Annexure 3 in respect of the payment on which WHT not deducted, should be furnished along with the annual statement.

The schedules are required to be furnished in electronic form (Excel csv format). Templates of the above schedules are available in the web portal of the Department of Inland Revenue and instructions on furnishing the Returns & Schedules in electronic form will be provided time to time.


D.M.L.I. Dissanayake

Commissioner General of Inland Revenue

Ivan Dissanayake
Commissioner General of Inland Revenue
Department of Inland Revenue
Sir Chittampalam A Gardiner Mawatha
Colombo 02

Cc: Auditor General

Secretary to the Treasury

Deputy Secretary to the Treasury

Annexure 1(a)

Certificate No./ Serial No:

Withholding Agent's TIN:

Certificate of Tax Deduction – Service Fee

Name and address of the Withholding Agent:

Name and address of the Withholdee:

National Identity Card No. /Passport No. / Taxpayer Identification No of the Withholdee:

Period: from: to:

(a) Nature of the payment (ex. Rent, Royalty, Service Fee etc.)

(b) Gross amount of the payment exclusive of VAT (Rs.):

(c) (i) Rate of tax:

(ii) Amount of tax deducted excluding VAT (Rs.):

(d) Date/s of tax deduction:

(e) Date of remittance:

.....
Name of the Authorized Officer

.....
Signature of the Authorized Officer

Date:

Certificate No:/ Serial No:

Withholding Agent's TIN:

Certificate of Tax Deduction - Interest

Name and address of the WHT Agent (Bank/Financial Institution):

Name and address of the Depositor:

National Identity Card No. /Passport No. / Tax Identification No.:

Period: from: to:

- (a) Gross amount of the interest (Rs.):
- (b) (i) Rate of tax:
- (ii) Amount of tax deducted (Rs.):
- (c) Date of tax deduction
- (d) Date of Remittance:.....

.....
Name of the Authorized Officer

.....
Signature of the Authorized Officer
Date:

Annexure 1(c)

Certificate No:/ Serial No:

Withholding Agent's TIN:

Certificate of Tax Deduction - Dividends

Name and address of the WHT Agent:

Name and address of the Withholdee:

National Identity Card No. /Passport No. / Tax Identification No. Of Withholdee:

		Gross Dividend	Withholding Tax	Net Dividend
Paid out of Dividend Received	Exempt			
	Liabe			
	Total			
Paid out of Profit & Income	Exempt			
	Liabe			
	Total			
Total				

Date of tax deduction:

Date of remittance:

.....
Name of the Authorized Officer

.....
Signature of the Authorized Officer

Date:

Annexure 2 (a)

Year of Assessment:

Name & TIN of the Withholding Agent:

WHT - Schedule 1 (WHT Deduction from interest / Discount)

Serial No	Type of investment	Name	Address	TIN / NIC / Passport No/	Account No / Certificate No	Date of Commence ment of Deposit/ Investment (YY-YY-MM-DD)	Date of Maturity (YY-YY-MM-DD)	Account Value / Investment Value (Rs)	Interest Rate (%)	Interest paid/ payable (Rs)	Rate of WHT (%)	WHT HT (Rs)	WHT Certificate No	Date of WHT remitted to IRD

.....
Signature of the Authorized Officer

Date:

Annexure 2(b)

Year of Assessment:

Name & TIN of the Withholding Agent:

WHT - Schedule 2 (Service Fee)

Serial No	Type of Payment	Name	Address	TIN / NIC/Passport No/	Receipt No	Date of Payment to Withholdee	Paid Amount (Rs)	Rate of WHT (%)	WHT (Rs)	WHT Certificate No	Date of WHT remitted to IRD

.....

Signature of the Authorized Officer

Date:

Annexure 2(c)

Year of Assessment:

Name & TIN of the Withholding Agent:

WHT - Schedule 3 (Gross Dividend Distributed)

Shareholder's TIN/ID No	Date of Distribution (YYYY-DD- MM)	Gross Amount Distributed	Exempt Amount	Liable Amount	Tax Rate	Dividend Tax Deducted	Dividend Tax Not Deducted	Date of Payment (YYYY- DD-MM)	Date of WHT remitted to IRD

.....

Signature of the Authorized Officer

Date:

Annexure 3

Year of Assessment:

Name & TIN of the Withholding Agent:

WHT - Schedule 5 (Details of Withholding Tax not deducted)

Serial No	Type of payment	Name	Address	TIN / NIC/Passport No/	Date of Payment to Withholdee	Paid Amount (Rs)	Reason for exemption / not deducted
						Total	

.....

Signature of the Authorized Officer

Date: