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உள்ளநாட்டு இறைவரித் திணைக்களம்
INLAND REVENUE DEPARTMENT

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செயலகம்
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Circular No: SEC/2022/E/02

December 20th, 2022

Circular to Banks and Financial Institutions

DEDUCTION OF ADVANCE INCOME TAX ON INTEREST OR DISCOUNT ON DEPOSITS

This Circular sets out explanatory notes and guideline to any Bank or Financial Institution to facilitate the application of the Advance Income Tax (AIT) imposed under the provisions of the Inland Revenue Act, No. 24 of 2017 (IRA) as amended by the Inland Revenue (Amendment) Act, No. 10 of 2021 and 45 of 2022, from **payments of any amounts as the interest, discounts, income from Islamic financial transaction payable to any deposit holder.**

This circular is effective from January 01, 2023.

1. Imposition of AIT

In terms of Section 84A(1A) of the IRA as amended, with effect from January 1, 2023, a person shall deduct Advance Income Tax from the payment of interest or discount which has a source in Sri Lanka, at the rate of 5%.

Accordingly, payments of any amounts by any bank or financial institution as interest (excluding exempt Interest), discounts and income received from Islamic financial transaction (referred to in Section 32 of IRA) which has source in Sri Lanka, payable to any person is liable to be deducted of AIT at 5%.

2. Application of Provisions of Double Tax Avoidance Agreement

Provisions of the Double Tax Avoidance Agreement (DTAA) between Sri Lanka and other countries are applicable in respect of AIT on interest payments to non-resident persons. If any deposit holder who is a non-resident person seeks a lower AIT rate (compared to the rate of 5%) from the bank or financial institution, such institution should instruct to the deposit holder to obtain a tax clearance certificate from the Commissioner General of Inland Revenue (CGIR) prior to the deduction of AIT. On behalf of the CGIR, relevant tax clearance certificate will be issued by the Commissioner of Business Consultation Unit (1st Floor, Inland Revenue Department, Sir Chittampalam A Gardiner Mawatha, Colombo 02) (Telephone:

+94112134204 email: bc@ird.gov.lk). The CGIR will consider lower rates (if applicable according to the DTAA provisions) when issuing such tax clearance certificates. If the CGIR has confirmed the lower rate in the tax clearance certificate, relevant bank or financial institution shall apply the rate specified therein and deduct AIT accordingly.

3. Exempt Interest

The banks or financial institutions are not required to deduct AIT on following income tax exempted interest payments.

- (i) The interest accruing to or derived by any person on moneys lying to his credit in foreign currency in any foreign currency account opened by him or on his behalf, in any commercial bank or in any specialized bank, with the approval of the Central Bank of Sri Lanka, on or after January 1, 2020.
- (ii) The interest accruing to or derived by any person from a term deposit account titled as "Special Deposit Account" opened and maintained with an authorized dealer in Sri Lanka as prescribed by regulations made by the Minister under section 29 read with section 7 of the Foreign Exchange Act, No. 12 of 2017, (excluding the subsequently renewed accounts), either in any designated foreign currency or in Sri Lanka Rupees on or after April 8, 2020.
- (iii) Amounts derived by
 - a) the Government of a foreign country of foreign territory to the extent specified under a diplomatic immunities law or a similar law;
 - b) an international organisation to the extent specified under a diplomatic immunities law or a similar law or an agreement between the organisation and the Government of Sri Lanka, provided that the exemption provided under the agreement shall be broader than that provided under diplomatic immunities law or a similar law;

Other persons and institutions whose interest is exempted from income tax in terms of the provisions of the IRA (as amended), shall require to obtain (deposit holder) interest exemption confirmation letter from the CGIR, prior to the AIT deduction by the bank or financial institution. On behalf of the CGIR, relevant confirmation will be issued by the Commissioner of Customer Supporting and Promotion Unit (2nd Floor, Inland Revenue Department, Sir Chittampalam A Gardiner Mawatha, Colombo 02) (Telephone: 0112134250 email: csp@ird.gov.lk). If CGIR has confirmed the exemption, relevant bank or financial institution shall not require to deduct AIT from the interest payments to such deposit holder.

4. Important Consideration for AIT Deduction

- (i) Gross interest (other than the repayment of deposit) is considered as an interest for the deduction of AIT. Any sum referred to as "excess" over the original payment (in the case of any certificate of deposit), discount or income from Islamic financial transaction is considered for amount subject to the deduction of AIT.

- (ii) If the Deposit is jointly owned by a person with another person, relevant interest or discount payment shall be apportioned among the joint owners in proportion to their interests in the Deposit. Where the interests of joint owners cannot be ascertained, they shall be treated as equal.

5. Time of AIT Deduction

AIT should be deducted at the time where the relevant interest or discount is paid, credited, re-invested, accumulated, capitalized or made available to the person; as the case may be; by a Bank or Financial Institution in making such payments.

6. Payments of AIT Deducted

Every Bank or Financial Institution which has deducted AIT shall pay the relevant tax to the CGIR within fifteen days after the end of each calendar month. AIT could be paid through the Online Tax Payments Platform (OTPP) and if manually pays, relevant payment should be made to the Peoples Bank and the tax type code for the payment is as follows.

- AIT on Interest 43

7. Certificate of AIT Deduction

Every Bank or Financial Institution which has deducted AIT is required to issue a certificate of AIT deduction to every person in the specified format (Attachment 1). The AIT certificate shall cover a calendar month and shall be served within 30 days after the end of the month that the AIT has deducted.

The bank or financial institution may provide AIT certificate in soft copy format, if deposit holder is ready to accept the same. However, if deposit holder requires printed AIT certificate, bank or financial institution shall serve the same.

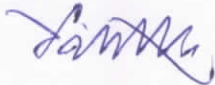
8. Records to be Maintained by the Bank or Financial Institution and their Obligations

- (i) The Bank or Financial Institution which is deducting AIT shall be a registered Withholding Agent under the CGIR. If the registration has not been obtained, the person is required to obtain a registration number from the Commissioner General not later than 30 days prior to the commencement of deduction of AIT.
- (ii) Any bank or financial institution which has already been registered as a WHT Agent can continue same registration for the purpose of deduction of AIT.
- (iii) Withholding Agents shall keep proper records, either in soft copies or hard copies format (including the copies of tax clearance and exemption confirmations received by them) in given format (Please refer attachment 2) for all the AIT subjected payments and shall be furnished at the request to of tax officials or for the inspection of the tax officials.

- (iv) Schedules to the Annual Statements should be submitted on AIT deductions and such schedules are required to be furnished in (Excel csv format) electronic form. However, if number of AIT deducted persons (taxpayers) are less than 20, hard copies may be submitted.

9. Circular and Notices Issued Prior to this Circular

Circular No. SEC/2020/03 (revised) issued on 08.06.2020 is terminated with effect from the date of this circular.



D.R.S. Hapuarachchi
Commissioner General of Inland Revenue
Inland Revenue Department
Sri Chittampalam A. Gardiner Mawatha
Colombo 02

D.R.S. Hapuarachchi

Commissioner General of Inland Revenue

Copies to:

1. Secretary to the Ministry of Finance and Planning
 2. Controller of Exchange, Department of Exchange Control
 3. Director, Banks Supervision Branch
 4. Secretary, Sri Lanka Banks' Association (Guarantee) Limited
 5. Auditor General, Auditor General's Department
- } for circulation to all
Banks and Financial
Institutions

Certificate No:/ Serial No:

TIN of the Bank/ Financial Institution:

Certificate of Advance Income Tax (AIT) DeductionName and address of the Bank/Financial Institution:
.....
.....Name and address of the Deposit Holder:
.....
.....

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

Interest/Discount paid for Period: from: to:

Gross amount of Interest/Discount (Rs.):

Interest/Discount Amount Subject to AIT (Rs.)	AIT Rate	Amount of AIT Deducted (Rs.)	Net Interest/ Discount Paid (Rs.)
	5%		
	Other (..... %)		

Above deducted AIT has paid to the Commissioner General of Inland Revenue as follows.

.....

Cheque/Auto Payment Receipt No.

Date of Payment

.....

Name and Signature of the Authorized Officer

Date:

Advance Income Tax Deduction

Attachment 2

TIN of the Bank/ Financial Institution:

Name and address of the Bank/Financial Institution:

	Serial Number
	Name of the Deposit Holder
	Address of the Deposit Holder
	Country of Residence
	TIN/ NIC or Passport Number
	Account Number(s)
	Deposit Amount (Rs.)
	Interest / Discount Payment Period
	Gross Interest/ Discount Paid (Rs.)
	Tax Clearance Certificate / Exemption Confirmation Reference No.
	Interest/Discount Amount Considered for Deduction (Rs.)
	Tax Rate (%)
	Amount of Tax Deducted (Rs.)
	Net interest/ discount paid (Rs.)
	AIT Paid to the IRD (date and payment reference)
	AIT Certificate Reference