

Key Outcomes - Supreme Court Special Determinations

- Inland Revenue (Amendment) Bill

- Value Added Tax (Amendment) Bill

November 2022



Tax Alert

The Supreme Court (SC) Special Determinations under Article 120 and 121 of the Constitution in relation to the Inland Revenue (Amendment) Bill and Value Added Tax (Amendment) Bill have been issued and the Determinations impact the effective date of the amendments proposed in the Bills. We have tabulated below the effective dates that were provided in the respective two Bills and the new effective dates in the proposed Committee Stage Amendments set out in the SC Special Determinations.

As per the process, pursuant to the SC Determinations the two Bills along with the Committee Stage Amendments must be submitted to the Cabinet for approval. Upon receiving the Cabinet approval, the usual legislative enactment process in the Parliament would be followed.

NOTE : DUE TO THE SHORT TIME FRAME AVAILABLE TO COMPLETE THE PROCESS, IF THE CABINET SO DECIDES THE EFFECTIVE DATE OF 1ST OF DECEMBER (AS REFERRED TO IN THE SC DETERMINATION, REFER TABLE BELOW), MAY BE FURTHER DEFERRED.

Key outcomes stemming from the Determinations are as follows.

Supreme Court Determination – Inland Revenue (Amendment) Bill

Item	Inland Revenue Bill	Supreme Court Determination
1. Advance Payment of Income Tax (APIT) Mandated APIT deduction by employer on Profits from employment	Effective date: date of commencement of this (Amendment)	Effective date: 1 st December 2022
2. Advance Income Tax (AIT) Mandated AIT deduction from the payment of dividend, interest, discount, charge, natural resource payment, rent, royalty or premium which has a source in Sri Lanka	Effective date: date of commencement of this (Amendment)	Effective date: 1 st December 2022
3. Withholding tax on service fees	Effective date : date of commencement of this (Amendment)	Effective date : 1 st December 2022
4. Final Withholding Payment Dividend paid by a Resident Company will be treated as a final withholding payment	Effective date : date of commencement of this (Amendment)	Effective date : 1 st December 2022
5. Personal Income Rates Revision of personal income tax rates from 6%, 12% and 18% to 6%, 12%, 18%, 24%, 30% & 36%	Effective date: 1 st October 2022	Effective date: 1 st December 2022 First eight months for the Y/A 2022/23 – 6%, 12% and 18% Second 4 months for the Y/A 2022/23 - 6%, 12%, 18%, 24%, 30% & 36%
6. Personal Relief Revision of Personal relief of Rs 3Mn to Rs 1.2 Mn per annum	Effective date: 1 st October 2022 Rs. 1,500,000, for first six months and Rs. 600,000 for second four months of the Y/A 2022/23 Rs 1,200,000 for a Y/A for period after 1 st April 2023	Effective date: 1 st December 2022 Rs. 2,000,000, for first eight months and Rs. 400,000 for second four months of the Y/A 2022/23 Rs 1,200,000 for a Y/A for period after 1 st April 2023

Item	Inland Revenue Bill	Supreme Court Determination
<p>7. Expenditure relief</p> <p>Expenditure relief of Rs 1.2 Mn to be removed</p>	<p>Effective date: 1st October 2022</p> <p>A sum of Rs. 600,000, incurred for the first six months of the year of assessment commencing on 1st April 2022 is allowed as a deduction (Y/A 2022/23)</p> <p>Expenditure relief will be removed with effect from 1st October 2022</p>	<p>Effective date: 1st December 2022</p> <p>A sum of Rs. 800,000, incurred for the first eight months of the year of assessment commencing on 1st April 2022 is allowed as a deduction (Y/A 2022/23)</p> <p>Expenditure relief will be removed with effect from 1st December 2022</p>
<p>8. Calculation of income tax payable for the year of assessment commencing on 1st April 2022</p>	<p>Shall be calculated separately for two periods of the year of assessment as;</p> <ul style="list-style-type: none"> — first six months and — second six months <p>For the purpose of such calculation, the person may use pro-rata basis (as 50% for first six months and balance 50% for second six months of the year of assessment) to arrive at the taxable income for such two periods</p>	<p>Shall be calculated separately for two periods of the year of assessment as;</p> <p>Individuals</p> <ul style="list-style-type: none"> — first eight months and — second four months <p>and</p> <p>Persons other than individuals</p> <ul style="list-style-type: none"> — first six months and — second six months. <p>For the purpose of such calculation of business income, the person may use pro-rata basis (as 66% for first eight months and balance 34% for second four months by individuals and 50% for first six months and balance 50% for second six months by persons other than individuals) to arrive at the taxable income for such two periods</p>

Supreme Court Determination – Value Added Tax (Amendment) Bill

Item	VAT Bill	Supreme Court Determination
1. VAT Registration threshold The registration threshold of Rs. 300mn (Rs 75mn per quarter) to be reduced to Rs. 80mn per annum (Rs 20mn per quarter)	Effective date: with effect from 1 st October 2022	Effective date: with effect from 1 st October 2022 The requirement for the registration shall arise from the date the amendment Act comes into operation
2. VAT Exemption removal VAT Bill removes the exemption provided for the supply of any condominium residential accommodation	Effective date: with effect from 1 st October 2022	Effective date: 1 st December 2022

You may refer the KPMG Alert issued on 14th November 2022 under the title 'Recent Amendments to Tax Laws (proposed)' for further details of the proposals provided in the Inland Revenue (Amendment) Bill and Value Added (Amendment) Tax Bill.

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