

Circular No: SEC/2018/.04

Date: 16.03.2018

Circular to Banks / Financial Institutions

## **Withholding Tax on Interest paid by Banks or other Financial Institutions**

This Circular sets out explanatory notes and guideline to any Bank or Financial Institution, to facilitate the application of section 84 of the Inland Revenue Act, No. 24 of 2017, with effect from April 1, 2018, for the deduction of income tax from interest, discount or income from Islamic financial transaction referred to in section 32 payable or paid by such Bank or Financial Institution to **any person** ( person includes individual, , company or body of persons, trust , association or charitable institutions etc.), on any sum of money deposited or invested as the case may be; with **Sri Lankan rupees or any other foreign currency.**

### **1. Time of Deduction**

Tax should be withheld at the time, the interest/ discount/profit is paid or credited, reinvested, accumulated or capitalized; as the case may be; to any account maintained in a Bank or Financial Institution by a person or on behalf of such person including interest accrued to foreign currency accounts. In case of foreign currency account, the exchange rate should be the rate in which the withholding is due.

### **2. Circumstances for non-reduction of withholding tax**

- (I) The tax deduction required under the provisions of section 84 of the Act, is not applicable to the following interests or discounts.
- a. Interest paid to a financial institution on the ordinary loans and advances provided by such institution;
  - b. Interest or discount paid to any person on Security or Treasury Bond under the Registered Stocks and Securities Ordinance (Chapter 420) or Treasury Bill under the Local Treasury Bills Ordinance (Chapter 417);

- c. An amount equal to the interest or the discount paid or allowed, as the case may be, to any non-resident person or to any licensed commercial bank in Sri Lanka, by the issuer of any sovereign bond denominated in foreign currency, issued on or after October 21, 2008, by or on behalf of the Government of Sri Lanka;
- d. Aggregated interest income (from all deposits) of a senior citizen (resident in Sri Lanka who is sixty years old or above at any time during the year of assessment) up to Rs. 1.5 Million per annum (subject to declaration of such senior citizen as per the format given in Annexure 1).
- e. The interest derived by a charitable institution, where it is proved to the satisfaction of the Commissioner-General that such interest is applied solely for the purpose of providing care to children, the elderly or the disabled in a home maintained by such charitable institution;

**(Any Financial institution is required to seek confirmation from the Department of Inland Revenue that such institution is qualified for this exemption)**

**(II)** Any interest payable to:

- (a) the Government of Sri Lanka or a Local Authority including any government department;
- (b) the Central Bank of Sri Lanka including Monetary Board;
- (c) any university established under any university Act in Sri Lanka;
- (d) Government assisted any private school registered with the Ministry of Education and mandated to follow the Government circulars;
- (e) Co-operative Societies registered under Co-operative Societies Law, No. 5 of 1972;
- (f) a foreign Government which falls under a diplomatic immunities law;
- (g) any international organization which falls under a diplomatic immunities law or similar law or exemption provided under an agreement entered into with Government of Sri Lanka;
- (h) an individual entitled to privileges to the extent for by-

(i) a diplomatic immunities law or a similar law;

(ii) an act giving effect to the Convention on the Privileges and Immunities of the United Nations or specialized Agents of the United Nations;

is not liable for the deduction of withholding tax.

### 3. Rates of Deduction

Every Bank or Financial Institution paying interest including any sum referred to as “excess” over the original payment (in the case of any certificate of deposit), discount or profit from Islamic financial transaction is required to withhold income tax from such payment (unless it is exempt) as follows:

- (i) in the case of interest or discount or income from Islamic financial transaction **paid to any person** (other than to a senior citizen), is required to withhold at the rate of 5%;
- (ii) in the case of a senior citizen, if the interest income exceeds Rs. 1,500,000 for any year of assessment, the liability to withholding tax arises on the balance of the interest income for the year, and be withheld at the rate of 5%;

#### Notes:

- (a) If a direction has been issued by the Commissioner General of Inland Revenue or any officer authorized by the Commissioner General (as referred to in paragraph 5), the deduction should be made in accordance with such direction, and such directions should be kept in safe and be made available to any officer authorized by the Commissioner General for inspection (if required);
- (b) As per the section 195 (interpretation) of Inland Revenue Act, “**Person**” means an individual or **entity** and includes a body of persons corporate or unincorporated, an executor, non-governmental organization and charitable institution. Further, “**entity**” means a company, partnership or trust, but excludes an individual.

### 4. Joint Accounts

Interest on joint accounts of individuals may be apportioned among such individuals according to the mandate given to the Bank or Financial Institution and such part of the interest apportioned to each such individual can be treated as interest payable to such individual.

## 5. Direction for Charitable Institution

If the recipient of the interest is a charitable institution and has reasons to believe that income tax payable/ computed by such recipient for any year of assessment, is exempt under section 9 of the Act, such a recipient may request direction from the Commissioner General. The Bank/ Financial Institution should honor any such direction issued by or under the authority of the Commissioner General, and make adjustment accordingly.

## 6. Certificate of Deduction

Every Bank or Financial Institution deducting income tax accordance to paragraph 3 is required to issue in respect of each deduction, a certificate of tax deduction to every depositor (individual, partnership, company or body of person etc.), in the following format. **The withholding certificate shall cover a calendar month and shall be served within 30 days after the end of the month.**

**Note:** If a withholding tax deduction is **duly made** from the interest on any deposit of resident individual or charitable institution, taxation of such interest is treated as final.

## 7. Records to be maintained by the Bank/ Financial Institution and their other obligations

Every Bank and Financial Institution is required to –

- (a) Register as withholding agent under the requirements of Commissioner General of Inland Revenue.

As per section 195;

**"withholding agent"** means a person required to withhold tax from a payment under the Inland Revenue Act.

**"withholdee"** means a person receiving or entitled to receive a payment from which tax is required to be withheld under the Inland Revenue Act;

- (b) As provided in section 102 of the Inland Revenue Act, Banks or Financial Institutions (withholding agent) liable to furnish return of income for a year of assessment is required to obtain a registration number from the Commissioner General not **later than 30 days prior to the commencement of deduction of tax.**

- (c) According to the section 86 of the Inland Revenue Act, every withholding agent shall file with the Commissioner General within 30 days after the end of each year of assessment.

Keep a proper record of the interest/excess amount as the case may be, paid by a Bank or Financial institution any year of assessment to any person and the date or dates on which such interest or excess is paid, as per the format given in the Annexure 3.

- (f) Keep a record of interest on which no withholding tax has been deducted due to exemption from deduction as mentioned in paragraph 2 of this guideline as per the format given in Annexure 4.

**Note:** Commissioner General of Inland Revenue may permit officer of the Department authorized (in writing) to inspect the above records.

## **8. Payments of tax withheld or treated as withheld**

- (i) Every withholding agent must pay to the Commissioner-General within 15 days after the end of each calendar month any tax that has been withheld in accordance of the paragraph 3, during the month. The monthly payment of the relevant tax, should be credited to the People's Bank Account No. 014-1002-6-9026620 through the paying-in-slip issued by the Department (Which have DLN Number) ,
- (ii) A withholding agent, who fails to withhold tax in accordance with the provisions of Division II of Chapter VIII of the Inland Revenue Act, must nevertheless pay the tax that should have been withheld in the same manner and at the same time as tax that is withheld.

## **9. Submission of Returns and Schedules**

### **(i) Return**

Every withholding agent for any year of assessment commencing on or after April 1, 2018, duly prepared **annual return** which are issued by the Commissioner General of Inland Revenue, should file with the Commissioner General within 30 days after the end of each year ending on 31<sup>st</sup> day of March,

Please note that Photostat copies of the return issued by the Department of Inland Revenue will not be entertained. Further, return should be furnished even in the instances where no any tax is payable.

**(ii) Schedules**

Please note that with effect from April 1, 2018, schedules should be submitted on withholding tax deducted on interest paid or credited or discount allowed or on any charge, referred to in section 84 of the Inland Revenue Act, as per the formats given in Annexure 3 & Annexure 4.

**Note:** The schedules are required to be furnished in (Excel csv format) electronic form. However, if numbers of tax payers are less than 20, hard copies may be submitted.



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

**DEPARTMENT OF INLAND REVENUE**

To: .....  
.....  
.....  
.....

(Name & address of the Financial Institution)

**Account No.:** .....

**Year of assessment:** .....

**DECLARATION (BY SENIOR CITIZENS)**

I,

.....  
(Full Name)  
of..... (Address)  
hereby declare that;

I am a resident and a senior citizen of Sri Lanka (as per the provisions of the Inland Revenue Act No. 24 of 2017)

1. The aggregate interest receivable by me for the above year of assessment on the monies deposited in this account or any other account of this bank or any other accounts in any other bank or any other financial institution does not exceed Rs. 1,500,000/-. Therefore, please refrain from deducting withholding tax interest payable on this account.
  
2. The aggregate of the interest receivable by me on the monies deposited in the above account together with the total interest receivable by me from any other account of this bank and of any other account in any other bank or any other financial institution may exceed Rs. 1,500,000/- of total interest for the above year of assessment. Therefore, please withhold the tax on the excess of the interest over Rs.....
  
3. The tax relief on interest income of Rs. 1,500,000/- which is available to senior citizen has been availed by me in respect of the interest receivable by me on the monies deposited in the other accounts of this bank or other banks or other financial institutions. Therefore, please withhold tax on the total interest receivable by me from this account.

**National Identity Card No.** .....

**Tax payer Identification No.** .....

I certify that the above declaration made by me is true and correct.

*Any changes to my residence status will be notified to the bank at the time of such change.*

.....

**Date**

.....

**Signature of the Declarant**

(\* please strike-off the statements not relevant)



**Certificate No:/ Serial No:**

**Withholding Agent TIN:**

**Certificate of Tax Deduction**

Name and address of the 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 .....

.....

Name of the Authorized Officer

.....

Signature of the Authorized Officer

Date: .....

**Annexure 3**

**Schedule 1- WITHHOLDING TAX FROM INTEREST**

Withholding tax deducted from any person should be declared in the following schedule.

1	2	3	4	5	6	7	8	9	10	11	12	13	14
Serial No	Type	Name	Address	TIN / PAN / Sport No/ NIC. No	Account No / Certificate No	Date of Commencement of Deposit/ Investment (YYYY-MM-DD)	Date of Maturity (YYY-MM-DD)	Account Value / Investment Value (Rs)	Interest Rate (%)	Interest paid/ payable (Rs)	Rate of WH T (%)	WH T (Rs)	WH T Certificate No
<b>Total</b>													

## Annexure 4

### Schedule 2 – DETAILS OF WITHHOLDING TAX EXEMPTIONS

The exemptions from deduction stated under paragraph 2, should be declared in the following schedule.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Serial No.	Type	Branch Code	Name of the Recipient of the Interest	NIC No./ TIN	Amount of Interest Paid	Reason for exemption
Total						

The following table provides illustration for types & exemptions.

Examples for Type	Examples for Reasons for exemption
Fixed Deposits	Ordinary loans
Savings Accounts	Senior Citizen
Foreign Currency Accounts	Charitable Institution
Certificate of Deposit	Treasury Bill
Corporate Debt Securities	Treasury Bond
Government Securities	sovereign bond
Others	Other

