

**INSTRUCTIONS TO EMPLOYERS ON TAX DEDUCTIONS FROM
EMPLOYMENT INCOME
YEAR OF ASSESSMENT – 2018/2019**

This guideline provides employers with necessary instructions to enable them to make deduction of tax from employment income in accordance with the provisions set out in the Inland Revenue Act, No. 24 of 2017, with effect from April 01, 2018.

Withholding by Employers

Every Employer is required to deduct income tax from the gains and profits from employment of each employee, liable to pay income tax at the time such remuneration is paid or credited.

1. Employee

An employee means any individual who receives remuneration in cash or kind for past, present or prospective employment performs by such individual, including public sector employee, a Director/Chairman of a Company or Corporation and a working partner of a partnership.

2. Profits from employment liable to tax

Tax liability arises on total remuneration received by an employee in any form as described below in cash or kind, for services performed or value of any benefit arises from prospective employment.

- Salary, wages, leave pay, overtime pay, fees, pensions, commissions, gratuities, bonuses, and other similar payments;
- Personal allowance, including any cost of living, subsistence, rent, entertainment or travel allowance;
- Payments providing discharge or reimbursement of expenses incurred by the employee or an associate of the employee;
- Payments for an individual's agreement to conditions of employment;
- Payments for redundancy or loss or termination of employment;
- Retirement contribution made to a retirement fund on behalf of the employee and retirement payment received in respect of the employment;
- Payments or transfers to another person for the benefit of the employee or an associate person of the employee;
- The fair market value of benefits received or derived by virtue of the employment by the employee or an associate person of the employee;
- Other payments, including gifts, received in respect of the employment;
- The market value of shares, at the time allotted, under an employee share scheme, including shares allotted as a result of the exercise of an option or right to acquire the shares, excluding the employee's contribution for such shares;

3. Excluded profits from employment

- Exempt amounts and final withholding payments;
- A discharge or reimbursement of expenses incurred by the individual on behalf of the employer;
- A discharge or reimbursement of an individual's dental, medical or health insurance expenses where the benefit is available to all full-time employees on equal terms;
- Payments made to or benefits accruing to employees on a non-discriminatory basis that, by reason of their size, type and frequency, are unreasonable or administratively impracticable for the employer to account for, or to allocate to the individual;
- The value of a right or option to acquire shares at the time such shares are granted to an employee under an employee share scheme;
- Contributions made by an employer to an employee's account with a pension, provident or savings fund approved by the Commissioner-General.

4. Exempt profits from employment

- Compensation or gratuity paid in lieu of personal injuries or death;
- Pension received from the Sri Lankan Government or from a Department of the Government;
- Amounts paid on retirement from any Provident Fund approved by the Commissioner General of Inland Revenue;
- Amounts paid on retirement from any Pension Fund or the Employees' Trust Fund, representing investment income earned for any period commencing on or after 1 April 1987;
- Income derived by an individual entitled to privileges under the Diplomatic Immunities Law and other specified conventions;
- Benefits derived by a Government employee, from a road vehicle permit granted to such employee.

5. Aggregate Reliefs for Employment Income

In arriving at the taxable income from employment income following reliefs are available for resident individual for each year of assessment.

- Personal relief of Rs. 500,000
- Relief of Rs. 700,000 up to the total of income from employment

Accordingly, any resident individual who receives remuneration in excess of Rs. 1,200,000 per annum or Rs. 100,000 per month liable to withholding tax from employment income.

6. Tax Tables for tax deductions from employment income

New Tax tables are applicable for the year of assessment 2018/2019 onwards (effective from April 01, 2018). Deduction of tax from remuneration should be made by applying the appropriate tax table.

How to apply Tax Tables

An employer who makes a payment during a year of assessment to an employee, in respect of that employee's employment, the employer must withhold an amount from such payment in accordance with–

- (a) where the payment constitutes regular profits from the employment, of any employee who has furnished a **Primary Employment Declaration**,
Tax Table 01 should be applied.
- (b) where the payment constitutes a Lump-sum payment,
Tax Table 02 should be applied.
- (c) where the payment constitutes a Once-and-for-all payment (Terminal Benefits),
Tax Table 03 should be applied.
- (d) where the payment received by the non-citizens in Sri Lanka,
Tax Table 04 should be applied.
- (e) where the monthly regular profits of an employee from a primary employment is less than LKR 100,000 but the cumulative profits from the primary employment up to any month in the year of assessment exceeds LKR 1,200,000 due to payment of higher remuneration in certain months, in such instances,
Tax Table 05 should be applied.
- (f) where the payment constitutes a payment or reimbursement of the employee's tax liability on his income from employment by the employer,
Tax Table 06 should be applied.
- (g) where the payment constitutes of the remuneration of any employee, who has not furnished a **Primary Employment Declaration**, or who has more than one employment,
Tax Table 07 should be applied.

Tax Tables are available in the Inland Revenue Department Web Portal www.ird.gov.lk

7. Primary Employment

- The primary employment of an employee for a year of assessment is the employment with respect to which the employee has provided an employer with a declaration for that year.
- An employee shall furnish an employer, with a declaration nominating the employment as the employee's primary employment.
- A declaration must be signed and dated by the employee and the employer, and may relate to one or more years of assessment.

- An employee must not have more than one primary employment at any one time.
- An employee may withdraw such declaration only at the end of a year of assessment, unless the primary employment is ceased.

Note: - Please use the specified form of Primary Employment Declaration in the Inland Revenue Department Web Portal www.ird.gov.lk

8. Consecutive Primary Employment

- The employee has another employment after the primary employment has ceased, the employee must provide the employer of the other employment with, a new declaration and the withholding tax certificate issued with respect to the prior primary employment.
- The new primary employer, who is provided with a withholding tax certificate, must return the certificate to the employee within 7 days.
- The new primary employer must, for the purposes of calculating the tax to be withheld according to Tax Tables, from payments to be made to the employee during the remainder of the year of assessment –
 - add to the payments from the new primary employment for the year the payments from the employee’s prior primary employment referred to in the withholding tax certificate; and
 - add to tax considered to be withheld by the new primary employer during the year from payments made to the employee the amount of tax referred to in the withholding tax certificate as withheld by the employee’s prior primary employer.
- The Employee ceases two or more primary employments during a year of assessment, the employee may provide the new employer with multiple withholding tax certificates.

9. Secondary Employment

With respect to an employee Secondary Employment means any employment that is not the primary employment of the employee.

10. Remittance of Tax deducted

- i. Tax deducted from employment income from every employee during a particular month should be remitted to the Commissioner General of Inland Revenue on or before the 15th day of the month immediately succeeding that month.
- ii. Payments should be made to **any branch of Bank of Ceylon**, using specified remittance forms issued by the Inland Revenue Department.
- iii. Employers are required to read the instructions on the overleaf of the remittance form.
- iv. Employers should keep the third copy of the remittance form after making the payments.

11. Further Instruction and Information regarding deduction of tax from employment income

These instructions are meant to guide the employers to deduct amount of tax from employees. However, if there is any inconsistency between the provisions of the Inland Revenue Act and these instructions, the provisions of the Act shall apply.

Further details, Tax Tables and the electronic version of the relevant forms and schedules, relevant Gazette notifications can be downloaded from Inland Revenue Department Web Portal www.ird.gov.lk

For any further clarification please contact;

IRD Call Centre	- 1944
Business Consultation Unit	- 2134284/2134286/2134289
Secretariat	- 2135411/ 2135412 / 2135413
PAYE Audit Branch	- 3009411/3009426/3009427

Commissioner General of Inland Revenue

Tax Table No. 07

Rate for the deduction of tax from the second employment,

Rates for the deduction of tax from the regular profits from employment of any employee who has not furnish the primary employment declaration, or in respect of regular profits from employment of any employee employed under more than one employer, where such regular profits from employment is paid by any employer other than the primary employer.

Where Monthly payment of the employee,

- ✓ less than or equal to LKR 50,000 per month, at 10%; and
- ✓ Balance amount exceeds LKR 50,000 per month, at 20%

Tax Table No. 6 Tax on Tax Rates

Tax on tax arises in the following instances:

- (i) When an employer or any other person settles income tax liability of an employee, without being deducted from his salary,
- (ii) Reimbursement by the employer of Income Tax already deducted from employee's salary.

The Tax Calculation as follows;

Option 1: Tax on Tax in respect of monthly regular profits from employment

- ✓ Use the Part I of this Table, to compute the tax on tax in respect of monthly regular profits from employment.
- ✓ Determine the tax on tax by the application of the relevant rate percentage on the monthly tax computed under Tax Table No. 01.

Example:

Expatriate Mr. X was employed in Sri Lanka on 01.04.2018. His gross salary for April 2018 is 140,000/-. Employer has undertaken to pay his tax without deducting it from his salary.

Computation of tax payable by the employer is as follows:-

	Rs.
Tax payable on Rs. 140,000 for April 2018	1,600
<u>Add.</u>	
Tax on Tax at 4.17% of Rs. 1,600	<u>67</u>
Total income tax payable for April 2018	<u><u>1,667</u></u>

Option 2: Tax on Tax in respect of lump-sum payments from employment

- ✓ Use Part II of this Table, to compute the tax on tax in relation to lump-sum payments.
- ✓ Compute the tax on tax using the rate applicable on the basis of tax computed under tax Table 2.

Example:

Expatriate Mr. Y was employed in Sri Lanka on 01.04.2018. His gross salary for April 2018 is Rs.145,000. He was paid with bonus of Rs. 290,000 in April, which is 2 months salary. Employer has undertaken to pay his tax without deducting it from his salary.

Computation of tax is as follows:

Tax on monthly gross salary of Rs. 145,000 according to tax Table 01	1,600
Tax on bonus of Rs. 290,000 under Tax Table No. 02 Part M2, $290,000 \times 7.25\%$	21,025
<u>Add.</u>	
Tax on tax at 4.17% of Rs. 1,600 (tax on tax monthly salary)	67
Tax on tax at 8.70% of Rs. 21,025 (tax on bonus)	<u>1,829</u>
	<u>1,896</u>
Total income tax payable for April 2018	<u><u>24,521</u></u>
<i>(Tax on tax rate applicable on Lump-sum payments tax of 21,025 which computed at the rate of 7.25% is 8.70%)</i>	

PART - I

Tax on tax rate in respect of all categories of employees.

Monthly Tax (Rs.)	Tax on Tax Rate
0 - 2,000.00	4.17%
2,001.00 - 6,000.00	8.70%
6,001.00 - 12,000.00	13.64%
12,001.00 - 20,000.00	19.05%
20,001.00 - 30,000.00	25.00%
30,001.00 and above	31.58 %

PART - II

Tax on Tax rates applicable for Lump-sum-payments (e.g. Bonus etc.)

Ranges of applicable Rates on lump-sum-payments	Tax on Tax Rate
Where the applicable rate on lump sum payment is not exceeding 4%	4.17%
Where the applicable rate on lump sum payments exceeds 4.25% but not exceeding 8%	8.70%
Where the applicable rate on lump sum payments exceeds 8.25% but not exceeding 12%	13.64%
Where the applicable rate on lump sum payments exceeds 12.25% but not exceeding 16%	19.05%
Where the applicable rate on lump sum payments exceeds 16.25% but not exceeding 20%	25.00%
Where the applicable rate on lump sum payments exceeds 20%	31.58%

PART - III

Tax on tax rates applicable for Tax Table 07

Tax Rate applicable on monthly Regular profits from employment	Tax on Tax Rate
10%	11.11%
20%	25.00%

TAX TABLE No. 05

Deduction of tax on cumulative profits from Employment

01. In deducting tax from taxable profits from employment, Tax Table 1, 4, 6, or 7 should be applied, appropriately. This table should be applied in respect of employees whose monthly regular profits from employment is less than Rs. 100,000/-, but cumulative profits from employment up to any month in the year of assessment exceed Rs. 1,200,000/- due to payment of higher regular profits from employment in certain months. In such instances, Table No. 01 should not be applied.
02. Tax deduction should start from the month in which the cumulative profits up to that month exceed Rs.1,200,000/-. Thereafter tax deduction should be made monthly till end of the year of assessment, using this table.

Example:

Mr. Silva is an employee of a private institution and his monthly regular profits from employment is generally less than Rs. 100,000. His Gross regular profits from employment for the period from April 2018 to January 2019 Rs. 1,225,000. His New monthly Income is Rs. 140,000 from February 2019.

Tax deductions should be made as follows:

2019 January	<u>Rs.</u>
<i>Gross Employment income from April 2018 to January 2019</i>	<i>1,225,000</i>
<i>Tax chargeable in January</i>	<u><i>1,000</i></u>
 2019 February	
<i>Gross Employment income from April 2018 to February 2019</i>	<i>1,365,000</i>
<i>Tax on Rs. 1,365,000</i>	<i>6,600</i>
<i>Tax Charged in January (Deducted)</i>	<u><i>(1,000)</i></u>
<i>Tax chargeable in February</i>	<u><i>5,600</i></u>
 2019 March	
<i>Gross Employment income from April 2018 to March 2019</i>	<i>1,505,000</i>
<i>Tax on Rs. 1,505,000</i>	<i>12,200</i>
<i>Tax Charged in January & February (Deducted)</i>	<u><i>(6,600)</i></u>
<i>Tax chargeable in March</i>	<u><i>5,600</i></u>

TAX TABLE NO. 4

Tax deduction from the regular profits from employment of employees who are non-citizens in Sri Lanka.

1. In case of employees who are non-citizens in Sri Lanka please apply the following tax table for the deduction of tax for their regular profits from employment s if they are residents in Sri Lanka in terms of provisions made in the Inland Revenue Act.

Monthly Regular profits from employment (Taxable)	Tax
1. Monthly regular profits from employment up to Rs. 100,000/-	- Exempt
2. Monthly regular profits from employment exceeding Rs. 100,000/- but not Exceeding Rs. 150,000/-	- 4% of monthly regular profits from employment less Rs. 4,000/-
3. Monthly regular profits from employment exceeding Rs. 150,000/- but not Exceeding Rs. 200,000/-	- 8% of monthly regular profits from employment less Rs. 10,000/-
4. Monthly regular profits from employment exceeding Rs. 200,000/- but not Exceeding Rs. 250,000/-	- 12% of monthly regular profits from employment less Rs.18,000/-
5. Monthly regular profits from employment exceeding Rs. 250,000/- but not Exceeding Rs. 300,000/-	- 16% of monthly regular profits from employment less Rs. 28,000/-
6. Monthly regular profits from employment exceeding Rs. 300,000/- but not Exceeding Rs. 350,000/-	- 20% of monthly regular profits from employment less Rs. 40,000/-
7. Monthly regular profits from employment exceeding Rs. 350,000/-	- 24% of monthly regular profits from employment less Rs 54,000/-

2. Please apply the following tax table for the deduction of tax from the remunerations of employees who are non-residents and non-citizens in Sri Lanka for the current year of Assessment.

Monthly Regular profits from employment (Taxable)	Tax
1. Monthly regular profits from employment up to Rs. 50,000/-	- 4% of monthly regular profits from employment
2. Monthly regular profits from employment exceeding Rs. 50,000/- but not Exceeding Rs. 100,000/-	- 8% of monthly regular profits from employment less Rs. 2,000/-
3. Monthly regular profits from employment exceeding Rs. 100,000/- but not Exceeding Rs. 150,000/-	- 12% of monthly regular profits from employment less Rs. 6,000/-
4. Monthly regular profits from employment exceeding Rs. 150,000/- but not Exceeding Rs. 200,000/-	- 16% of monthly regular profits from employment less Rs. 12,000/-
5. Monthly regular profits from employment exceeding Rs. 200,000/- but not Exceeding Rs. 250,000/-	- 20% of monthly regular profits from employment less Rs. 20,000/-
6. Monthly regular profits from employment exceeding Rs. 250,000/- but not Exceeding Rs. 300,000/-	- 24% of monthly regular profits from employment less Rs. 30,000/-

TAX TABLE No. 03
Rates for the Deduction of Tax from Once-and-for-all Payments
(Terminal Benefits)

01. The amounts of the Once-and-for-all Payments to which this table applies are:
- a. Any sum paid in commutation of pension;
 - b. Retiring gratuity;
 - c. Any sum payable as compensation for loss of office or employment
 - d. Any sum payable from the Employees Trust Fund (ETF) (excluding the share of Investment income of the fund, after 31.03.1987);

Exemptions –

- i. Any amount paid from a Provident Fund approved by Commissioner General
 - ii. Capital sums paid to a person as compensation or a gratuity in relation to –
 - a. personal injuries suffered by the person; or
 - b. the death of another person;
 - iii. Pension or any retiring benefit paid to any public sector employee.
 - iv. Any compensation by way of death gratuity or compensation for death while on duty.
02. i. Deduct tax at 10% from the following payments
- (a) Amount received in commutation of a pension;
 - (b) Amount received as a retiring gratuity;
 - (c) Amount received as compensation for loss of office or employment under a scheme which is uniformly applicable to all employees and approved by the Commissioner General.
- ii. Deduct tax at 24%, in the circumstances referred to in para 01(c), payment under non uniform scheme.
03. In the case of uniform scheme once-and-for-all payments, deduction should not be made in the following situations:
- (i) Aggregate amount referred to in (a), (b), (c) or (d) of paragraph 01.
 - (a) Rs. 2,000,000 where the period of service or contribution is less than 20 years.
 - (b) Rs. 5,000,000 where the period of service (or contribution) is equal to or more than 20 years.

04. Please retain with you the deductions made and advise your retiring employee to obtain a direction from the PAYE Audit Branch, at Nawam Mawatha, Colombo 02. On receipt of the direction, please comply with it.

If you have not received a direction or an advice before the expiry of 90 days from the date of deduction, please remit the deductions to the Commissioner-General to the credit of Account No. 2, Peoples Bank, Union Place branch.

Please do not write your Taxpayer Identification Number (TIN) in the space provided for it on the Paying-in-Slip, please leave that space blank. You should write “Tax on Once-and-for-all Payment” in the space provided for “Type of Tax”.

TAX TABLE No. 2
Rates for the Deduction of Tax from Lump-sum Payments

01. The following payments are considered as Lump-sum-payments
- (i) Payments such as bonus,
 - (ii) Leave encashment,
 - (iii) Gifts received in respect of the employment,
 - (iv) Medical expenses reimbursements,
 - (v) Salary arrears due to service reinstatement,
 - (vi) The fair market value of benefits received or derived by virtue of the employment by an individual or an associate person of the individual,
 - (vii) The market value of shares at the time of allotment under an employee share scheme, including shares allotted as a result of the exercise of an option or right to acquire the shares, reduced by the employee's contribution for the shares etc.
02. This Table No. 2 comprises 48 Parts, numbered from "M ½" to "M 24".
- ✓ M ½ is the Part that applies if the amount of cumulative lump sum payments is ½ times the average monthly profits from employment.
 - ✓ Similarly, "M 3½" is the Part that applies if the amount of cumulative lump sum payments is 3½ times of that average and; so on.
03. Follow the following steps to compute the tax on Lump-sum-payments, in relation to an employee:
- (i) Ascertain the nearest half, by dividing the amount of lump-sum-payments (*including any lump-sum-payments made previously during the year*) by the monthly average profits from employment.
 - (ii) Select the relevant Part from Tax Table No 02.(*Ascertained nearest half*)
 - (iii) Find the rate corresponding to average profits from employment, from that Part of the Table, (excluding lump-sum-payments).
 - (iv) Compute the tax by applying such rate on the total lump-sum-payments (including any lump-sum-payment made previously during the year of assessment).
 - (v) Deduct from the tax so ascertained the tax paid, if any, on any lump-sum-payment made previously during the year of assessment and ascertain the net tax payable on lump-sum-payments being made now.
04. If you need any Part of Tax Table No. 02 other than "M ½ to M 24", please refer Secretariat of the Inland Revenue Department.

Example:

Mr. Silva receives a bonus of Rs. 175,000 in April 2018. His regular profits from employment for that month are Rs. 150,000. His basic monthly salary is Rs. 120,000 and the monthly average of allowances and the other benefits (liable to tax) is Rs. 30,000 (approximately).

	<u>Rs.</u>
Average regular profits from employment	150,000
(Gross monthly salary) (120,000+30,000)	-
The tax deduction in April in respect of Rs. 150,000	-
(according to Table No. 1)	2,000
The average times of the bonus vs regular profits(bonus/ regular profits)	$\frac{175,000}{150,000} = 1.458333$
<i>(i.e. approximately 1.5 times the average monthly profits from employment)</i>	
<i>The amount of Bonus is 1.5 times of average regular profits</i>	
<i>Therefore, Part M 1.5 of the table is applicable in this instance</i>	
<i>According to Part M 1.5 of the table the corresponding rate to average profits from employment excluding lump sum payments (Rs.150,000) is 8.25%.</i>	
Tax on Bonus = Bonus x the applicable rate	$175,000 \times 8.25\%$
	= 14,437.50
Total tax deductible in April 2018 (2,000+14,437.50)	16,437.50

TAX TABLE No: 01

Monthly Tax Deductions from Regular Profits from Employment

(Applicable for all resident employees who has furnished the Primary Employment Declaration to Employer)

01. Tax Table No: 01 should be applied to deduct tax from regular profits from employment payable to every employee during a calendar month.
02. Regular profits from employment include:
 - (i) Wages, salary, commission, overtime pay, travelling allowance, and other allowances, fees, pension or such other profits from employment that arise in any pay period,
 - (ii) Payment on housing, conveyance, medical bills, insurance policies, electricity, telephone bills and entertainment etc.,
 - (iii) Payments or transfers to another person for the benefit of the individual or an associate person of the individual;
03. In preparing this Tax Table, Rs. 41,667/= per month as tax free allowance and Rs. 58,333/= per month as special tax free allowance only for employment income have already been deducted. hence, tax deductions should be made from the profits from employment applying Tax Tables without deducting any sum from such profits from employment, unless a direction is issued by the Commissioner General or any officer authorized by him.
04. With regard to any employee whose monthly total regular profits from employment (total of employment income described in paragraph 02 above) is less than Rs. 100,000/=, but cumulative profits up to any month during the year of assessment exceeds Rs. 1,200,000/=, then tax deductions should be made commencing from that month applying Tax Table No: 05.
05. In the case where an employee enters in to employment or retires during the year of assessment (earn regular profits from employment for a period less than 12 months) to deduct his/her tax, Tax Table No. 05 should be applied.
06. If any employee is paid salary arrears for a reason such as service suspension, then to deduct tax from such salary arrears, Tax Table No. 02 should be applied.
07. Other than the exempt amounts given in the third schedule of the Inland Revenue Act, No. 24 of 2017, No exemptions are available for employment income with effect from 01-April-2018,

Note:

- **For deduction of tax on Lump Sum Payments, Tax Table No: 02 should be applied.**
- **For deduction of tax on Once-and-for-all Payments, Tax Table No: 03 should be applied.**

Summarized Tax Table - Regular Profits from Employment

(For all resident employees who has furnished the Primary Employment Declaration to Employer)

Monthly Regular profits from employment (Taxable)	Tax
1. Monthly regular profits from employment up to Rs. 100,000/-	- Exempt
2. Monthly regular profits from employment exceeding Rs. 100,000/- but not Exceeding Rs. 150,000/-	- 4% of monthly regular profits from employment less Rs. 4,000/-
3. Monthly regular profits from employment exceeding Rs. 150,000/- but not Exceeding Rs. 200,000/-	- 8% of monthly regular profits from employment less Rs. 10,000/-
4. Monthly regular profits from employment exceeding Rs. 200,000/- but not Exceeding Rs. 250,000/-	- 12% of monthly regular profits from employment less Rs.18,000/-
5. Monthly regular profits from employment exceeding Rs. 250,000/- but not Exceeding Rs. 300,000/-	- 16% of monthly regular profits from employment less Rs. 28,000/-
6. Monthly regular profits from employment exceeding Rs. 300,000/- but not Exceeding Rs. 350,000/-	- 20% of monthly regular profits from employment less Rs. 40,000/-
7. Monthly regular profits from employment exceeding Rs. 350,000/-	- 24% of monthly regular profits from employment less Rs 54,000/-