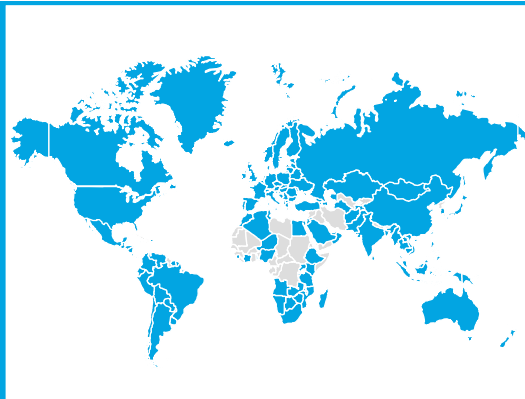


INPATRIATES

Sri Lanka

Tax facts for international assignees



INCOME TAX: WHO IS LIABLE/RESIDENCY

Inpats may come within the local Tax framework on their employment income by two means.

Pay As You Earn (PAYE) and Advance Personal Income Tax (APIT)

Until 31st December 2019, remuneration of employees who were either non-resident non-citizens or resident non-citizens of Sri Lanka were liable for PAYE and the applicable PAYE was *mandatorily* withheld and remitted to the Inland Revenue Department (IRD) by the employer from the monthly remuneration. Where a withholding agent failed to withhold tax from a payment as required, the withholder was jointly and severally liable with the withholding agent for the payment of the tax to the Commissioner-General, and the tax had to be paid by the withholder within 15 days after the end of the calendar month in which the payment was received.

With the proposed changes to the Inland Revenue Act No. 24 of 2017 (IRA), employers shall continue to *mandatorily* withhold and remit to the IRD from non-resident expat employees' employment profits an APIT as per the APIT tables.

Whereas, if such expat is a resident, then with effect from 1st January 2020 till 31st March 2020 the expat was allowed *to opt to* compute the Self-Assessment tax payments individually based on the expat's Cumulative Income or authorize the employer to compute the APIT in accordance with the APIT tables on Cumulative Income from Employment and remit to the IRD. Effective 1st April 2020 the employer *may* withhold, with *consent* from a resident expat, tax as per the APIT Tables and remit to the IRD from the expat's employment profits. The deduction to tax under the APIT is *mandatory* with regard to non-resident employees.

Residency in Sri Lanka of such an expatriate is confirmed if such expatriate resided in Sri Lanka or was present in Sri Lanka for a period in aggregate exceeding 183 days during any twelve-month period.

Withholding Tax on Service fees

If the inpat is not an employee and performs functions as an independent contractor, then despite the citizenship, if the inpat is either a:

Resident Individual

The Inpat shall have to obtain a tax registration and estimate at the beginning of each Year of Assessment, the Taxable Income generated from sources in Sri Lanka and the Annual Tax payable and pay the same on a Quarterly basis after filing a Statement of Estimated Income Tax Payable ("SET").

Non-resident Individual

The Inpat shall be subjected to a Withholding Tax by the Withholding Agent on any Service Fee received which has a source in Sri Lanka at the rates provided in the IRA (subject to treaty provisions)

Receipts which have a source in Sri Lanka have been listed out in Section 73 of the IRA which includes payments received in respect of employment, technical service fee, or similar payment etc..

Tax Reliefs

Tax reliefs were revised with changes proposed to the IRA. During the (Y/A) 2019/2020 the tax-free allowance was limited to Rs. 375,000 and employment relief to Rs. 525,000 for the period 1st April to 31st December 2019 and a total of relief Rs. 750,000 for the period 1st January to 31st March 2020. According to the proposal, in every future Year of Assessment, all residents and citizens are eligible for a Rs. 3,000,000 personal relief on the profits and income sourced from Sri Lanka.

Tax Compliance Due Dates

APIT scheme (with effect from 1st April 2020)

If the employee has consented to the tax deduction at source, the tax deducted from the employee must be paid by the employer on or before the 15th of the month immediately succeeding the end of that relevant month.

If consent is not granted to compute APIT, employees pay Quarterly Self Assessment payments based on the Statement of Estimated Income Tax Payable (SET) submitted.

- The Employer must furnish on or before 30th April each year an Annual Statement with the APIT details of the immediately preceding (Y/A). Individuals must furnish on or before 15th August of the current Y/A, SET for the current (Y/A) and an Individual Income Tax Return on or before 30th November for the immediately preceding (Y/A).
- The Employer must issue certificates of deduction to employees before 30th of April in respect of the (Y/A) ending on 31st March.

Record Keeping Requirements

An employer must maintain proper records and pay sheets in the prescribed form in respect of each employee liable to tax.

Tax Treaties

If the person under consideration is a resident of a Country with which Sri Lanka has entered into a Double Tax Avoidance Agreement (DTAA), then the residency and applicable Tax Rates shall be determined as per the said provisions of the DTAA.

INCOME TAX RATES

Year of Assessment 2020/2021 onwards

Income (LKR)	Tax rate
Next 600,000	12%
Next 600,000	16%
Next 600,000	20%
Balance	24%

*For residents and citizens only

For further information and to register for future updates contact expat@bdo.global

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