



දේශීය ආදායම් දෙපාර්තමේන්තුව  
உள்ளநாட்டு இறைவரித் திணைக்களம்  
INLAND REVENUE DEPARTMENT

ලේකම් අංශය  
14 වන මහල  
දේශීය ආදායම් ගොඩනැගිල්ල  
ශ්‍රීමත් වික්‍රමපාලම් ඒ ගාඩිනර් මාවත  
නැ.පෙ. 515, කොළඹ 2- ශ්‍රී ලංකාව

செயலகம்  
14 வது மாடி  
உள்ளநாட்டு இறைவரித் திட்டம்  
சேர் சிற்றம்பலம் ஏ காடினர் மாவத்தை  
த.பெ.இல. 515, கொழும்பு - 2, இலங்கை

Secretariat  
14<sup>th</sup> Floor  
Inland Revenue Building  
Sir Chittampalam A Gardiner Mawatha  
P.O. 515, Colombo 2 - Sri Lanka

ෆැක්ස් } 011 - 2338574/ 2338659/ 2338635/  
பக்ஸ் } 2338570/ 2338543  
Fax }

දුරකථන } 011- 2135300/ 2135410/ 2135412 /  
தொலைபேசி } 2135413  
Telephone }

E-Mail – secretariat@ird.gov.lk  
Web: www.ird.gov.lk

Circular No: SEC/2022/E/03

December 23<sup>rd</sup>, 2022

## Circular to Withholding Agents

### Deduction of Withholding Tax and Advance Income Tax

This Circular sets out explanatory notes and guideline to Withholding Agents (WHA), to facilitate the application of the Withholding Tax and Advance Income Tax (hereinafter referred to as “WHT”) imposed in terms of the Section 84, 84A and 85 of the Inland Revenue Act, No. 24 of 2017 (IRA), as amended by the Inland Revenue (Amendment) Act, No. 10 of 2021 and Inland Revenue (Amendment) Act, No. 45 of 2022.

This circular is effective from January 01, 2023 and applicable for the deduction of Withholding Tax and Advance Income Tax under the above provisions, but other than the payments subject to WHT referred to in following circulars.

1. Circular No. SEC/2022/E/06 Dated 23.12.2022 - Requirement of tax clearance for foreign outward remittances and related procedure
2. Circular No. SEC/2022/E/02 dated 20.12.2022 - Deduction of advance income tax on interest or discount on deposits

#### 1. Deduction of WHT

In terms of Section 84, 84A and 85 of the IRA as amended, with effect from January 1, 2023, a person shall deduct WHT on following payments which has a **source in Sri Lanka** except the exempt amounts, at the relevant WHT rates.

| Payment   | Relevant WHT Rate (%) |
|---|-----------------------|
| Payments to non-resident person with respect to land, sea, air transport or telecommunication service in terms of section 85(2) and Extraordinary Gazette Notification No. 2064/51 dated April 01, 2018 | 2%                    |
| Sale price payable to the seller of any gem sold at an auction conducted by the National Gem & Jewellery Authority  | 2.5%                  |

| <b>Payment</b>   | <b>Relevant WHT Rate (%)</b> |
|--|------------------------------|
| Service fee payments to a resident individual who is not an employee of the payer (if aggregate payment exceeds Rs. 100,000 per calendar month) -<br>(a) for teaching, lecturing, examining, invigilating or supervising an examination;<br>(b) as a commission or brokerage to a resident insurance, sales or canvassing agent; or<br>(c) for services provided by such individual in the capacity of independent service provider such as doctor, engineer, accountant, lawyer, software developer, researcher, academic or any individual service provider as may be prescribed by regulation | 5% on full payment           |
| Interest or discount paid  | 5%                           |
| Rent (defined in Section 195 of the IRA) payments to a resident person (if aggregate amount exceeds Rs. 100,000 per calendar month)  | 10% on full payment          |
| Amounts pays as winnings from a lottery, reward, betting or gambling   | 14%                          |
| Charge, natural resource payment (defined in Section 195 of the IRA) or premium  | 14%                          |
| Royalty (defined in Section 195 of the IRA)  | 14%                          |
| Rent payments to a non-resident person   | 14%                          |
| Service fee or an insurance premium payments to a non-resident person  | 14%                          |
| Dividend   | 15%                          |

However, WHT is not required to be deducted when the,

- a. payments made by the Sri Lanka Government including any local authority and Government Departments (other than Public Corporations, Universities and Government owned entities and businesses);
- b. payments made by individuals, unless payment made in conducting a business;
- c. interest paid to a financial institution on the ordinary loans and advances provided by such financial institution;
- d. 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).

## **2. Application of Provisions of a Double Tax Avoidance Agreement**

Provisions of Double Tax Avoidance Agreement (DTAA) between Sri Lanka and other country are applicable in respect of WHT on payments to non-resident persons. If any non-resident person seeks a lower WHT rate (compared to the rates mentioned above) shall obtain a tax clearance certificate from the Commissioner General of Inland Revenue (CGIR) prior to the deduction of WHT. 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 a lower WHT rate (if applicable according to the DTAA provisions) when issuing such tax clearance certificate. If CGIR has confirmed a lower

WHT rate in the tax clearance certificate as such, the relevant WHA shall apply the rate specified therein and deduct WHT accordingly.

### **3. Exempt Amounts**

WHA is not required to deduct WHT on following income tax exempted amounts.

- (i) any winning from a lottery, the gross amount of which does not exceed Rs. 500,000/-
- (ii) any amount derived on or after April 1, 2018, by any non-resident person as any payment for air craft, software licences or as for other related services from the Sri Lankan Airlines Limited.
- (iii) any amount derived on or after January 1, 2020 by any non-resident person from laboratory services or standards certification services.
- (iv) a dividend paid by a resident company which is engaged in any one or more of the following businesses in accordance with the provisions of Part IV of the Finance Act, No. 12 of 2012 and which has entered into an agreement with the Board of Investment of Sri Lanka established under the Board of Investment of Sri Lanka Law, No. 4 of 1978: -
  - (a) entrepot trade involving import, minor processing and re-export;
  - (b) offshore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing the same into Sri Lanka;
  - (c) providing front-end services to clients abroad;
  - (d) headquarters operations of leading buyers for management of financial supply chain and billing operations;
  - (e) logistics services including bonded warehouse or multi-country consolidation in Sri Lanka;
- (v) a dividend paid by a resident company to a member to the extent that such dividend payment is attributable to, or derived from, another dividend received by that resident company or another resident company which is subject to Advance Income Tax under subsection (1A) of section 84A of the IRA.
- (vi) The interest accruing to or derived by any person outside Sri Lanka on any loan granted to any person in Sri Lanka or to the Government of Sri Lanka by such person
- (vii) Any income earned by any non-resident person other than a Sri Lankan permanent establishment by way of interest, discount or realization of any gain on any sovereign bond denominated in local or foreign currency; issued by or on behalf of the Government of Sri Lanka.
- (viii) Any income earned by any person by way of interest or discount paid or allowed, as the case may be, on any sovereign bond denominated in foreign currency, including Sri Lanka Development Bonds, issued by or on behalf of the Government of Sri Lanka.
- (ix) 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;

The persons who have exempt amounts other than above exempt amounts are required to obtain income tax exemption confirmation letter for such amounts from the CGIR and submit to WHA prior to the WHT deduction. On behalf of the CGIR, relevant confirmation will be issued by the Commissioner of Customer supporting and Promotion Unit (2<sup>nd</sup> Floor, Inland Revenue Department, Sir Chittampalam A Gardiner Mawatha, Colombo 02) (Telephone: 0112134250 email: [csp@ird.gov.lk](mailto:csp@ird.gov.lk)). If CGIR has confirmed the exemption, on or after January 1, 2022, relevant WHA shall not deduct WHT from the respective amounts paid to such person.

#### **4. Important Considerations in WHT Deduction**

- (i) Gross amount excluding any Value Added Tax payable (only to the Commissioner General of Inland Revenue of Sri Lanka) is considered as the payment for the deduction of WHT.
- (ii) If any WHA wants to pay the total amount of any invoice, the invoiced amount should be treated as the net amount and the relevant WHT should be calculated based on the grossed-up amount.
- (iii) WHA is required to apply the currency exchange rate (selling rate) published in the Central Bank Website which is relevant for the date of payment to convert foreign currency amount into rupee amount for applicable cases.
- (iv) If the investment is jointly owned by the withholder with another person, relevant payment shall be apportioned among the joint owners in proportion to their interests in the investment. Where the interests of joint owners cannot be ascertained, they shall be treated as equal.

#### **5. Time of WHT Deduction**

WHT should be deducted at the time, that the relevant amount is paid, credited, re-invested, accumulated, capitalized or made available to the person; as the case may be; by the payer/ WHA in making such payments.

#### **6. Payments of WHT Deducted**

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

- WHT/AIT on Interest 43
- WHT on Other Payments 44

However, WHT due on the payments to non-resident persons will be collected as specified in the circular No. SEC/2022/E/06 Dated 23.12.2022.

## 7. Certificate of WHT Deduction

Every WHA who has deducted WHT is required to issue a certificate of WHT deduction to every person in the specified format (Attachment 1). The WHT certificate shall cover a calendar month and shall be served within 30 days after the end of the month that the WHT was deducted.

The WHA may provide WHT certificate in soft copy format, if the withholdee is ready to accept the same. However, if the withholdee requires printed WHT certificate, WHA shall serve the same.

## 8. Records to be Maintained by the WHA and their Obligations

- (i) The WHA who is deducting WHT shall be a registered as WHA with the CGIR. If the registration has not been obtained, the person is required to obtain a registration number from the CGIR not later than 30 days prior to the commencement of deduction of WHT.
- (ii) Such Persons 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 to attachment 2) for all the WHT subjected payments and shall be furnished at the request of a tax official or for the inspection of a tax official.
- (iii) Schedules to the Annual Statements should be submitted on WHT deductions and such schedules are required to be furnished in electronic form (Excel csv format). 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/2020/04 issued on 19.05.2020 is terminated with effect from the effective date of this circular.



D.R.S. Hapuarachchi

Commissioner General of Inland Revenue

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

Copies to:

1. Secretary to the Ministry of Finance and Planning
2. Auditor General, Auditor General's Department



**Attachment 2**

**Withholding Tax (WHT) / Advance Income Tax (AIT) Deduction**

TIN of the Withholding Agent: .....

Name and address of the Withholding Agent: .....

| Serial Number | Name of the Withholdee | Address of the Withholdee | Country of Residence | TIN/ NIC or Passport Number | Type of payment | Payment Period | Tax Clearance Certificate / Exemption Confirmation Reference No. | Amount Not Considered for WHT/AIT Deduction (Rs.) | Gross Amount Considered for WHT/AIT Deduction (Rs.) | WHT/AIT Rate (%) | Amount of WHT/AIT Deducted (Rs.) | Net Amount Paid (Rs.) | WHT/AIT Paid to the IRD (date and payment reference) | WHT/AIT Certificate Reference |
|---------------|------------------------|---------------------------|----------------------|-----------------------------|-----------------|----------------|--|---|---|------------------|----------------------------------|-----------------------|--|-------------------------------|
|               |                        |                           |                      |                             |                 |                |  |   |   |                  |                                  |                       |  |                               |
|               |                        |                           |                      |                             |                 |                |  |   |   |                  |                                  |                       |  |                               |