



KPMG Sri Lanka

Tax News Flash

April 2020

TAX UPDATE

For clients of KPMG in Sri Lanka

The Department of Inland Revenue (“DIR”) had issued a notice (PN/PAYE/2020-01) dated 15th April 2020 in relation to the deduction of tax on cumulative income from employment for the period 1st January 2020 to 31st March 2020 under the PAYE Scheme, which we have notified via our tax alert dated 17th April 2020. Such notice provided tax tables to be used by the employer for deduction of tax on the remuneration of the employees for the period 1st January 2020 to 31st March 2020, only in relation to cumulative remuneration from “primary employment”.

The DIR has now updated the above notice to include tax tables to be used by an employer for deduction of tax under the PAYE Scheme for the period 1st January 2020 to 31st March 2020, in relation to cumulative remuneration payable to an employee for “second employment”, i.e. where the employee has more than one employment and has not furnished the primary employment declaration to the employer, or where the employer is not the primary employer of such employee.

The updated notice containing the tax tables in relation to both primary employment and second employment has been attached hereto for your reference. You may also click on the link below to access the updated notice published by the DIR:

http://www.ird.gov.lk/en/Lists/Latest%20News%20%20Notices/Attachments/241/PAYE_ud_15042020_E.pdf

Follow us on,



KPMG Sri Lanka



@kpmgsl

www.home.kpmg/lk

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2020 KPMG, a Sri Lankan partnership, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.



INLAND REVENUE DEPARTMENT Notice to the Employers and Employees

Deduction of Tax on Cumulative Income from Employment for the Period 01.01.2020 – 31.03.2020

As you are already informed by the Inland Revenue Department (IRD) by its notice under the reference No. PN/IT/2020 - 03 (Revised) dated 06.04.2020 published in line with the instructions issued by the Ministry of Finance, subject to formal amendments to the Inland Revenue Act, No. 24 of 2017 (IRA), mandatory requirement under Section 83 of the IRA for deduction of Withholding Tax (WHT) on employment income under Pay-As-You-Earn (PAYE) Scheme by the employer on the employment income of a resident employee is removed with effect from 01.01.2020 and deduction of Advance Personal Income Tax (APIT) is replaced in lieu of PAYE tax with effect from 01.04.2020 on optional basis.

However, considering the inconvenience faced by the employees in making their tax payments of the tax liability on employment income for the period from 01.01.2020 to 31.03.2020, employers are allowed to make the tax payment of employees under PAYE scheme either by deducting from their remuneration of respective employees or by any other manner, with the consent of respective employees.

Accordingly, the employers can make the payment of tax by computing the tax liability of respective employees as set out in the table given along with this notice.

Duly computed tax liability and the amount of tax deducted from the remuneration (or as per any alternative arrangement) must be remitted as PAYE tax payment on or before **15th May 2020** and relevant details of such liability/payment shall be declared in the PAYE Return of the employer for the Year of Assessment 2019/2020 which is due to be submitted on or before 30th April 2020.

For making tax payments to the IRD, please refer to the notice under the reference No. PN/PMT/2020-1 dated 08.04.2020 published in the IRD web portal.

Commissioner General of Inland Revenue



TAXES - FOR A BETTER FUTURE

TAX TABLE

Deduction of Tax on Cumulative Income from Employment For the period 01.01.2020 – 31.03.2020

This table should be applied for deducting tax on cumulative gains and profits from employment of any employee who agreed for deduction of tax by his employer on his gains and profits from employment. The gains and profits from employment constitutes,

- Monthly regular profits from the employment (Cash and Non-Cash benefits) and
- Lump sum payments

(For value of non-cash benefit, please refer to the Guideline already published)

Above mentioned payments received from January 01, 2020 to March 31, 2020 (hereinafter referred to as “the period”) should be considered under this table.

Following steps should be followed in computing the tax liability.

01. Tax Computation for the Period

The tax computation should be made as set out below.

Monthly regular profits from the employment (Cash and Non-Cash benefits)	XXX
Lump sum payments	<u>XX</u>
Cumulative gains and profits from employment for the period	<u>XXX</u>

Tax payable for the period should be computed on the cumulative gains and profits in accordance with the Table 01 given below.

Table – 01 - Cumulative Tax Table

Cumulative Gains and Profits from the Employment (Rs.)	Tax
0 – 750,000	Nil
750,001 – 1,500,000	6% of Cumulative Income from employment less Rs. 45,000/-
1,500,001 – 2,250,000	12% of Cumulative Income from employment less Rs. 135,000/-
2,250,001 – and above	18% of Cumulative Income from employment less Rs 270,000/-

Example 01

Mr. Silva is a resident employee of a private institution and total of his last 3 months regular profits from employment (including non-Cash Benefits) was Rs 960,000. He received a bonus payment of Rs. 640,000 in February 2020.

Tax liability should be computed as follows:

Tax Computation for the Period (January –March, 2020)

	<i>Rs.</i>
<i>Gross regular employment income for the period</i>	<i>960,000</i>
<i>Bonus received in February</i>	<u><i>640,000</i></u>
<i>Gross payments for the period</i>	<u><u><i>1,600,000</i></u></u>
<i>Tax payable for the period</i>	<i>57,000</i>
<i>(By applying the relevant tax rate in Cumulative tax table (1,600,000 X 12%) – 135,000)</i>	

02. 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.

Determine the tax payable for the period in accordance with the Table 01 by following the instruction given under item 01 above.

Use Table 02 for computing tax on tax where applicable, in respect of the tax liability on cumulative emoluments of employee for the period.

Table – 02 - Tax on Tax Rates

January to March Tax (Rs.)			Tax on Tax Rate
0	-	42,300	6.38%
42,301	-	121,500	13.64%
121,501	-	and above	21.95%

Example 02

Mr. Perera's gross remuneration for the period from 01.01.2020 to 31.03.2020 was 2,600,000/-. Employer has undertaken to pay his tax without deducting from his remuneration.

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

	<i>Rs.</i>
<i>Tax payable on Rs. 2,600,000 for the period (as per Table 01)</i>	<i>198,000</i>
<i>Add- Tax on Tax at 21.95% of Rs. 198,000 (as per Table 02)</i>	<u><i>43,461</i></u>
<i>Total income tax payable for the period by the employer</i>	<u><u><i>241,461</i></u></u>

03. Deduction of Tax on Cumulative Income from Second Employment

This table should be applied for the deduction of tax from the cumulative income from employment of any employee who has not furnished the primary employment declaration, or in respect of income from employment of any employee employed under more than one employer, where such income from employment is paid by any employer other than the primary employer for the period from 01.01.2020 to 31.03.2020 subject to the consent of the respective employee.

01. Standard Rate

The income from second employment may also constitute, monthly regular gains and profits (Cash and Non-Cash benefits) and Lump sum payments if any received or derived from January 01, 2020 to March 31, 2020 by the employee. (For value of non-cash benefit, please refer to the Guideline already published)

Tax deduction should be made by applying the rates as follows.

Cumulative Employment income from <u>Primary Employment</u> for the Period of 01.01.2020 to 31.03.2020 (Rs.)	Cumulative Income from <u>Second Employment</u> for the Period of 01.01.2020 to 31.03.2020	Applicable Tax Rate (on the Income from Second Employment)
750,000 - 1,500,000	Cumulative Second Employment Income	6%
1,500,001 - 2,250,000	Cumulative Second Employment Income	12%
2,250,001 - And above	Cumulative Second Employment Income	18%

02. Tax on Tax Rate

If an employer or any other person settles income tax liability of the second employment income of an employee, without being deducted from his remuneration, or reimbursed the income tax payments of the employee, applicable rates will be changed as follows.

Cumulative Employment income from <u>Primary Employment</u> for the Period of 01.01.2020 to 31.03.2020 (Rs.)	Income from <u>Second Employment</u> for the Period of 01.01.2020 to 31.03.2020	Applicable Tax Rate (on the Income from Second Employment)
750,000 - 1,500,000	Cumulative Second Employment Income	6.38%
1,500,001 - 2,250,000	Cumulative Second Employment Income	13.64%
2,250,001 - And above	Cumulative Second Employment Income	21.95%

03. Example

Mr. Silva is the director of Company A and B. He has provided his Primary Employment Declaration (Form: -PAYE_001_E) to company A. He has given consent to both companies and agreed for the deduction of tax from his remuneration. Following gains and profits received from employment and both companies paying his income tax on behalf of him.

	Rs.
Monthly Salary from A	= 400,000
Bonus received from A during the month of March 2020	= 600,000
Monthly Salary from B	= 200,000
Bonus received from B during the month of March 2020	= 500,000

Tax liability should be computed as follows.

i. **Tax Computation for the Period (January –March, 2020) by the Primary Employer (Company A)**

	Rs.
Cumulative employment income for the period [(400,000 x 3) + 600,000]	= 1,800,000
Tax Payable by A = (1,800,000 X 12%)- 135,000	= 81,000
Tax on Tax as per Table 2 = 81,000 X 13.64%	= 11,048
Total Tax should be paid by A	= 92,048

ii. **Tax Computation for the Period (January –March, 2020) by the Second Employer (Company B)**

	Rs.
Cumulative employment income for the period [(200,000 x 3) + 500,000]	= 1,100,000
Tax Payable by B including tax on tax = (1,100,000 X 13.64%)	= 150,040
(since his primary employment income in between Rs.1,500,001 and 2,250,000)	